A HISTORY OF INDIAN ECONOMIC THOUGHT

Ajit Dasgupta

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…and when they have mastered that teaching they do not question each other about it, do not open up a discussion thus: ‘What is this? What does this mean?’; when they neither open up what has not been revealed nor explain what has not been explained nor clear up doubts on diverse doubtful points of doctrine: such a company, monks, is called ‘trained in bluster, not in enquiry’.

(Anguttaranikaya i: 72)

In memory of my father
Kulada Charan Dasgupta
1900–1987

Contents

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Abbreviations

An. *Anguttaranikaya*
CEHI *The Cambridge Economic History of India* (1982/83)
vol.1, *c.* 1200-c. 1750 (eds) Tapan Raychaudhuri and Irfan Habib;
vol.2, *c.* 1757-c. 1970 (ed.) Dharma Kumar, Cambridge.
CHI *Cambridge History of India* (1937)
vol. 4, The Mughal Period, (ed.) Sir Richard Burn, Cambridge
CW *Collected Works*
Dn. *Dighanikaya*
EIE *Essays on Indian Economics*
IJE *Indian Journal of Economics*
SIT *Sources of Indian Tradition* (1958)
vol. 1, (ed.) Wm-Theodore de Bary, New York and London.
SJ *Journal of the Poona Sarvajanik Sabha*
SLT *Samagra Lokamanya Tilaka, The Collected Marathi and English Writings of Balgangadhar Tilak* (1974–6) Poona.
Sn. *Suttanipata*
Vin. *Vinayasutra*

1 Introduction

This chapter provides an introduction, divided into three sections. The first points out some of the benefits that a study of the history of economic thought in general and that of Indian economic thought, in particular, might bring. The second sets limits on the scope of this history and explains broadly what it is intended to cover. The last section provides an outline of topics discussed.

THE USES OF HISTORY

Historians of economic thought often assume implicitly that understanding economics necessarily requires knowledge of its past but the necessity is not obvious. The same is true of any branch of modern knowledge. Whether, for example, it is useful for a scientist, or anyone, to study the history of science, except perhaps as a pastime, has long been a point of dispute. Those in favour have pointed to the gains that could be had by drawing on the storehouse of ancient wisdom. Those against have emphasised the advantage of starting on a fresh path, free from the shackles of the past. A standard example used by exponents of this latter view is the failure of science to grow as long as it relied on guidance from the Scriptures and Aristotle.

Between the time of Copernicus and that of Newton the difference between these two views of the history of science was often described as ‘a quarrel between the ancients and the moderns’. Voltaire, who was whole-heartedly on the side of the moderns, wrote under the entry ‘Job’ in his *Philosophical Dictionary* that there was not a book on science in his own day that was not more useful than *all* the books of antiquity.

By implication he was asking a further question: why then bother to read ‘books of antiquity’ or even read about them? The same kind of scepticism has been expressed in recent times regarding the contemporary relevance of ancient economics. In essence the doubt is

whether 'the wrong opinions of dead men' (Blaug 1978:1) merit attention. The most persuasive attempt to allay such doubt was by Schumpeter in the opening pages of his monumental *History of Economic Analysis.*

Schumpeter begins by spelling out the question that Voltaire had only implied:

> Well, why do we study the history of *any* science? Current work, so one would think, will preserve whatever is still useful of the work of preceding generations. Concepts, methods, and results that are not so preserved are presumably not worth bothering about. Why then should we go back to old authors and rehearse outmoded views? Cannot the old stuff be safely left to the care of a few specialists who love it for its own sake?
>
> (Schumpeter 1954:4)

Characteristically, Schumpeter does not reject this view outright but accepts the grain of truth that it embodies: 'It is certainly better to scrap outworn modes of thought than to stick to them indefinitely' (*ibid.:* 4). It was, he could have added, adherence to an outworn, authoritarian mode of thought which encouraged taking things on trust, rather than working them out for oneself by means of experiment, observation and reasoning, that had held up the progress of modern science. However, studying the past need not mean becoming its prisoner: 'we stand to profit from visits to the lumber room provided we do not stay there too long' (*ibid.:* 4). Schumpeter describes three distinct ways in which we can so profit.

Firstly there is a pedagogical advantage. Relying solely on the latest textbook may actually make teaching and learning more difficult than they need be, for unless that text itself presents a minimum of history, students may experience a sense of lacking direction and meaning.

A second advantage that one could gain by studying the history of a discipline consists in new ideas. Such study often helps widen one's horizon and suggests new ways of looking at familiar problems. And it is not just the successes that we learn from. The failures ('the wrong opinions of dead men'), can be no less instructive. 'We learn about both the futility and the fertility of controversies; about detours, wasted efforts, and blind alleys; about spells of arrested growth, about our dependence on chance, about how not to do things, about leeways to make up for' (*ibid.:* 5).

The third, and in Schumpeter's own ranking the highest, claim that can be made for the study of disciplinary history is that it provides insights into the ways of the human mind. This it does by displaying

'logic in the concrete, logic in action, logic wedded to vision and to purpose'. Any field of human action does, it is true, show the human mind at work but not with such directness and immediacy 'because in no other field do people take so much trouble to report on their mental processes' (*ibid.:* 5).

Schumpeter intended these arguments to apply to the study of the history of *any* science but claimed that they applied with added force to the case of economics. This study, however, is concerned not with the history of economics as such but with the history of economics in India. For this particular enterprise the argument of pedagogical advantage would hardly appear convincing.

Indian economic thought is relatively little known either in India or elsewhere. For an Indian economics student of our times, a study of Keynes, or Adam Smith, might provide a more useful perspective and a greater over-all sense of direction than a study of Kautilya or Ranade. For the same reason, however, the argument that a study of economic thought could give new insights into current economic problems applies here with much the greater force. Familiarity can breed indifference if not contempt. Travel in uncharted terrain makes one more acutely aware of both similarities and contrasts. In the course of this history we shall have occasion to dwell on both.

The third argument advanced by Schumpeter in favour of studying the history of economics is that it throws light on the workings of the human mind. For a history of economic thought in India this is, I believe, especially important. For this reason I shall consider this aspect at some length. The point concerns not just economic thought but the nature of Indian thought, culture, and civilisation in general. In ancient cultures the workings of the human mind tend to be closely linked to religion. A history of economic thought must therefore take the religious factor into account. If one is writing a history of economic thought for a country outside the mainstream of Western culture, this could give rise to special difficulties. These were particularly emphasised by Max Weber in his highly influential work on the sociology of religion. That part of Weber's doctrine which is most directly relevant to our present concerns is summed up by Ling (1988:14) as follows: 'According to Weber there is a fundamental contrast between oriental and occidental religion; the former he sees as being characterised by contemplative mysticism, and the latter by ascetic activism.'

Hinduism he regards as typical of the former, Judaism of the latter world view. Central to the Hindu view, states Weber, is the notion of a 'caste-structured world thought to be eternal and unchangeable' (Weber

1967:3). For the Jew, on the other hand, the opposite was true; 'The world was conceived as neither eternal nor unchangeable but rather as having been created' (*ibid.:* 4). This cultural heritage of ancient Judaism, believes Weber, shaped the rational and progressive attitude characteristic of Western civilisation. It provided 'a highly rational religious ethic of social conduct' which was 'worlds apart from the paths of salvation offered by Asiatic religions'. This seed of rationality, according to Weber, came to its full flowering in the Puritanical, and especially the Calvinistic, ethic which strengthened incentives to work and save and thereby made modern economic growth possible. Likewise the absence of such rationality in other cultures inhibited economic growth elsewhere. Thus Weber and his followers regard the East-West contrast as being of fundamental importance to the comparative history of civilisations. Indeed, Weber's argument could well be taken to imply that a country such as India just could not have a history of economic thought that is worth writing. If so the present enterprise is futile.

It may be helpful to state the point I have been making in a slightly different way. The study of Indian literature on economic themes is itself relatively new. In the circumstances, a historian of Indian economic thought may well be tempted to concentrate only on those aspects of Indian thought where it differs markedly from its Western counterpart. Even if the differences themselves are accurately presented, a distorted picture could emerge. The problem is not specific to Indian or to economic thought but is of wider application. Considering the methodological hazards that arise in studying the world of thought in ancient China, Schwartz describes the problem as follows:

> The historian of thought, unlike some cultural anthropologists, must, however, remain deeply suspicious of all efforts to provide the timeless unproblematic 'keys' to total cultures, keys leading to crude, global propositions of the form 'western culture is A and Chinese culture is *y*'.
> (Schwartz 1985:14)

Differences between different schools of thought, between Indian and Western economic thought in particular, are indeed important and will not be neglected in this book but neither will differences of economic thought *between* Indians. 'The truth', as Schwartz (*ibid.:* 14) observes, 'lies more often in the nuances than in the crude generalisations about global features of *x* culture or *y* culture.'

Arguments of this kind suffer from an inherent limitation. They assume a fixed and unchanging essence to be called Eastern, Western and so on. However, in any system of thought many different elements

co-exist. Ancient Judaism and its legacy to Western thought did not consist in a simple, rational religious ethic as Weber and his followers appear to suggest. Along with that element and in opposition to it there was the other major element in that tradition based on monarchy and magic. Hinduism, regarded as a body of thought rather than a mode of social organisation, is marked out by an even greater range of diversity. This, as Sen (1961:14) observes, makes it difficult even to define Hinduism precisely. Hinduism, he observes, contains within it the influences of many cultures and the body of Hindu thought offers 'as much variety as the Indian nation itself. Both 'this-worldly' and 'other-worldly' views can be found in it. The early Hindu scriptures, for example, described worldly success not only as morally desirable but also as an essential stage in a full and civilised life. Accordingly, the rational and systematic pursuit of gain, provided it did not violate certain moral norms, was given an honoured place in the Hindu ethic. It was after the subsequent decline of Hindu society and civilisation that views proclaiming the futility of worldly pursuits became prominent although they never succeeded in entirely superseding the Hindu tradition of material values (Dasgupta 1964). In Weber's holistic account of religious systems there was no place for such complexities. Likewise, the Weber thesis on the genesis of modern economic growth rests on Puritanism being regarded as an unambiguous example of rationality in world outlook. This was far from the case. Calvin believed in astrology; in the power of the Devil (whose various garbs he described in much detail); and in witch burning as a remedy against the plague. He supported the ruthless persecution of religious opponents including, 'if necessary', the killing of children. The doctrine of predestination helped: 'We may rest assured that God would never have suffered any infants to be slain except those who were already damned and predestined for eternal death' (Trevor-Roper 1967:185).

Such views hardly support the description of Calvinism as 'an extreme application of rationality to life' (Landes 1969:23). The interesting question is rather how such views, which were also an essential part of the Puritanical ethic, came to be defeated while its 'economic rationalism' triumphed. Weber's analysis, with its emphasis on 'the permanent, intrinsic character' (Weber 1956:40) of religious belief as the explanation of differences in economic performance can provide no clue.

To return to the Schumpeterian argument, studying the history of Indian economic thought can indeed help illuminate the workings of the Indian mind. The illumination would be the more effective if we discarded the distorting mirror of Weberian sociology.

CRITERIA FOR SELECTION

Whether we are dealing with economic thought in general, or with Indian economic thought in particular, not all such thought may be deemed equally worthy of being included in the record. Like all historians, a historian of economic thought must define boundaries. In doing so a certain degree of arbitrariness is inescapable, for judgments on what is important can never be entirely objective. Historians typically differ in their judgments on such things and, in consequence, the histories they write vary widely in scope, coverage and emphasis. Nevertheless, I believe that the reader is entitled to some justification for the approach taken in this regard. Some principles governing coverage, some criteria of selection of material to be included, are necessary even if they remain tentative and incomplete. To these I shall now turn.

The basic principle by which I have tried to delimit the scope of discussion rests on the distinction between economic thought and economic analysis. It is this distinction which Schumpeter had in mind in deciding on the title of his book, *History of Economic Analysis,* the opening sentence of which reads: ‘By History of Economic Analysis I mean the history of the intellectual efforts that men have made in order to *understand* economic phenomena or, which comes to the same thing, the history of the analytic or scientific aspects of economic thought’. Economic analysis in this sense is contrasted with economic thought, which Schumpeter defines as ‘the sum total of all the opinions and desires concerning economic subjects, specially concerning public policy bearing upon these subjects, that at any one given time and place float in the public mind’ (*ibid.:* 38). It would be possible, states Schumpeter, to write alongside a history of economic analysis another history of the popular views on economic subjects, one which he did *not* attempt to write.

In writing this history of Indian economic thought it is Schumpeter’s concept of economic thought that has provided my point of departure. This may help explain my use as basic source-material of epics and religious and legal texts for earlier periods and of public speeches, addresses and articles appearing in daily newspapers or weekly magazines for the nineteenth century and after. It explains, too, the emphasis I have placed on ‘opinions and desires’, especially about economic policy. If it was a history of economic *analysis* in India the emphasis would have been very different. In my judgment, ‘analytic or scientific aspects of economic thought’ of the kind Schumpeter was referring to, in defining economic analysis, cannot be found in Hindu, Buddhist, or Islamic writings on economic topics. Nor for that matter in

their Greek, Roman, Jewish or Scholastic counterparts. A history of economic analysis in India would have to start sometime in the nineteenth century. The evolution of economics in India from that time onwards could be treated as a study of the varying reactions of Indian scholars to classical political economy and, later, to the developing neoclassical tradition. An interesting and useful history could well result but the present enterprise is differently conceived.

In the final chapter of the book, which deals with the period since independence, the distinction between ‘economic thought’ and ‘economic analysis’ does perhaps get a little blurred but, even so, the discussion remains focussed on the broad direction of policy rather than on the intricacies of theoretical or econometric modelling.

There are a number of other possible criteria of selection which I have *not* used: one is whether or not the discussion tries seriously to analyse how markets work. According to Blaug (1978:6), ‘The history of economic thought (therefore) is nothing but the history of our efforts to understand an economy based on market transactions’. This, in my opinion, implies too narrow a view of what economics is about. To use market analysis as a ‘membership card’, would exclude much that is, and should be, of interest to a historian of economic thought. This is particularly so in the case of Indian economic thought.

Another criterion that has been proposed is whether economic behaviour can be treated as autonomous. Economics as a separate discipline, writes Blaug, did not emerge until the seventeenth century. This, he suggests, is because prior to that time ‘economic motives were not affecting more than a limited aspect of behaviour’ (*op. cit.:* 7). As a result, economic reasoning before that time remained *‘ad hoc,* unsystematic and devoid of the recognition of an autonomous sphere of economic activity’.

Much of the material presented in this book would fail to satisfy the ‘autonomy’ criterion. As we shall see, Buddhist literature honoured economic success and had some interesting things to say about the qualities that could help towards achieving it, but the rules of good conduct, the eightfold path, still prescribed the bounds within which economic activity could legitimately be pursued. Kautilya’s *Arthasastra* provides canons of taxation which a ruler interested in the maximisation of long-run state revenue was expected to adopt. Yet for him economic considerations remained subordinate to the question of polity. The political objective of state power always remained paramount. Indeed, till fairly recently Indian thought never conceived of economic activity as a really separate and autonomous part of human activity. This is not peculiar to India, however. As Hicks (1969:1) has observed, we are

bound to find as we go back into the past that the economic aspects of life are less differentiated from other aspects than they are today. Hence, historians of economic thought wishing to apply the autonomy of economic behaviour as a criterion must necessarily leave out premodern times from their account. Strictly applying the autonomy criterion would also exclude Gandhian economics from consideration because it was the separation of ethical from economic analysis that he found unacceptable.

Finally, I have also delimited the scope of discussion by choosing not to include economic and social history *per se.* For certain topics, when I felt that the occasion warranted it, I have tried to provide a brief description of the historical context. Even there such description remains peripheral to an analysis of the economic ideas themselves. I shall *not* attempt to relate economic theories, concepts or arguments in a systematic way either to the social milieu in which they were developed or to any underlying class interests or ideology which might have inspired them. If applied in a flexible and undogmatic manner such an approach can provide a useful and interesting history of economic thought in India (see, for example, Kosambi 1965). However, it is not the approach I propose to adopt, for I believe that economic ideas have a certain life of their own (cf. Blaug 1978:8). This precisely is the position that Galbraith, in his recent history of the ideas of economic thought, begins by attacking. 'In fact', he asserts, 'economic ideas are always and intimately a product of their own time and place; they cannot be seen apart from the world they interpret' (1987:1). Essentially this is in the Marxist tradition of 'explaining' a 'superstructure' of concepts and theories by a 'base' defined in terms of the material conditions of production. This approach does have the merit of bringing to bear a single ordering principle on the material of a history of thought, thereby imparting a certain cogency. This is gained, however, at the price of neglecting the logic of the discipline itself. In my judgment, that is too high a price.

As applied to pre-modern India the problem with this approach is not only that economic ideas were subject to many influences other than the state of the economy, but also that it is often unclear what the state of the economy really was. The 'stylised facts' underlying sociological analysis of Indian thought are often little more than stereotype. One such stereotype which keeps cropping up in Spengler's (1971) pioneering history of Indian economic thought is that Indian agriculture was particularly backward and, consequently, the standard of living abysmally low. Historical evidence does suggest that very many peasants in India lived, most of the time, on the margin of subsistence.

However, this is characteristic of *all* pre-industrial societies. Statistical data on comparative agricultural productivity in India as compared with other contemporary societies are not too plentiful. What evidence there is, however, suggests that in major crops like wheat or maize, yield rates per unit of land were higher in Mughal India than in the more progressive of the West European countries for much of the seventeenth century. Comparisons of the seed-yield ratio for most individual crops were also more favourable for India. (Habib 1963; Slicher van Bath 1963:239–46).

One would therefore, on the whole, expect a higher standard of living to prevail in India and according to many historians, it did. Spear (1970:47) writes: 'There seems to be good ground for thinking that the average peasant had more to eat than his European counterpart' (see also Moreland 1968: ch. 8; Desai 1972, 1978; Dasgupta 1988). One should not, perhaps, make too much of this, given the serious conceptual and statistical problems that comparisons of pre-industrial standards of living necessarily involve (see Dasgupta 1978). The thrust of my argument is different: it is to make out a case for studying economic ideas primarily on their own rather than in terms of events. This is what this book will attempt to do, avoiding historical controversy *per se* as far as possible.

That economic ideas are not historically determined by no means implies that historical experience is irrelevant to understanding them. Experience, by adding to our knowledge, can sometimes alter our understanding of both the theory and practice of economics. This can make the rewriting of history not only legitimate but essential. An Indian example may be helpful here. Reviewing Ranade's writings on economics Datta (1941–2) chided him for 'a singular lack of appreciation of socialist ideas' (p. 271) 'and his consequent failure to understand the undesirable consequences that might follow industrialisation on a capitalistic basis' (p. 275).

During the fifty years that have passed since, the attractions of socialist industrialisation for developing countries have dimmed and those of capitalistic development increased considerably. For this reason, and others, Ranade would be likely to receive a far more favourable review from historians of economic thought now than he did on the eve of independence, and elsewhere in this book I have tried to provide one.

More importantly, history impinges on the questions asked. At any time, the range of questions about economic issues that could usefully be addressed is enormously wide. Only a few will receive serious attention from scholars or from the public at large. In the process of

selection, social, economic and political circumstances prevailing at the time play an important part. Some familiarity with them is therefore indispensable for an understanding of the history of economic thought.

AN OUTLINE OF TOPICS

In this section I provide an outline of topics discussed. The book is divided into ten chapters. The present chapter serves as an introduction. Chapter two is concerned with Buddhist economic thought and consists of three sections. The first describes in some detail Buddhist attitudes to economic activity in general and reaches the conclusion that by and large Buddhism, far from being other-worldly or anti-growth, as sometimes alleged, took a far more favourable view of economic enterprise and material progress than most other world religions. Some views that can be found in Buddhist literature concerning price formation and tax policy are described in the second section. The role of altruism in the Buddhist view of what motivates human behaviour and its implications for economic analysis, are spelled out in the concluding section of the chapter.

Chapter three provides an exposition of the principal economic ideas contained in Kautilya's *Arthasastra* and consists of four sections. A basic theme of the *Arthasastra* is that the state should exert a dominant influence on economic activity. The nature and range of the state's economic functions are discussed in the first section of the chapter. The second section considers some specific recommendations made by Kautilya in respect of taxation and pricing policy. The third section looks at economic aspects of the land system as reflected in the *Arthasastra* and argues, in particular, that at this time agricultural land in India was to a large extent privately owned. The final section deals briefly with some problems of interpretation.

Chapter four is concerned with economic thought in the Muslim period, defined as extending from the early part of the thirteenth century, when the Delhi Sultanate was established, to the early part of the eighteenth, when the Mughal Empire started disintegrating. The chapter consists of four sections. The first provides an introduction which outlines the political history of the period and argues that developments in Indian thought during this period can only be understood in an Islamic framework. Islamic principles for fiscal policy, especially those relating to land revenue, are described in the second section together with their application in India. In the third section a similar exercise is carried out for monetary policy, attention being given in particular to the implications of the ban on *riba*. The last section describes a fourteenth-century experiment in price control.

Chapter five deals with economic debate on famines and famine policy in nineteenth-century India. It consists of five sections. The first looks at some definitions of famine and the second at how famines are caused. The basic principles of famine policy are set out in the third section and criticisms of the policy discussed in the fourth. The final section provides a summing up.

Chapter six discusses the drain theory developed by Dadabhai Naoroji, which became a central tenet of Indian economic nationalism and maintained that the financial mechanisms underlying British rule in India, in the late nineteenth century, led to a continuing unilateral transfer of wealth and income from India to Britain. The chapter is divided into three sections. The first sets out what the drain theory was about and describes in some detail the principal items in which the drain was said to consist. The second section examines criticisms of the drain theory by British and Indian writers. The final section looks at the theory in retrospect and considers its significance from an analytical as well as a historical perspective. The conclusion is reached that while the drain theorists tended to exaggerate the magnitude of the drain their judgment of the nature of the mechanisms involved was not misplaced.

Chapter seven describes M.G.Ranade's contribution to Indian economic thought and consists of four sections. The theme of the first is 'poverty and industrialisation'. Ranade believed that the root cause of poverty in India was over-dependence of the economy on agriculture. The remedy, as he saw it, lay in the development of manufacturing industry and foreign trade. Ranade's views on how this could be achieved are stated in the first section, which brings out in particular his views on the role of the state in the development process. Ranade also recommended an inter-related set of policies which could help in bringing about agricultural development. These form the subject matter of the second section on 'agrarian policy'. The third section outlines Ranade's analysis of the economic issues involved in public investment in railways, a question of some political importance in India at the time. The last section, which discusses Ranade's stand on the methodology of economics, pays particular attention to his criticisms of classical political economy and his relatively favourable attitude to mercantilism.

Chapter eight takes up some of the main themes of Indian economic thought during the period following the death of Ranade and before the achievement of independence. Four topics are discussed: the principles of the policy of 'discriminating protection' for industry that came to replace free trade; the contribution of G.K.Gokhale to the economics of education; the controversy on the 'proper' exchange value of the rupee; and the measurement of national income.

Chapter nine, on Gandhian economics, is divided into seven sections. The first, which is concerned with methodological issues, brings out both similarities and differences between the Gandhian approach and standard economics. The next two sections are concerned with Gandhi's views on consumption; the former states his doctrine of the limitation of wants and the latter his concept of *swadeshi.* The fourth section sums up the ideas about technology and the scale of production which led Gandhi to oppose industrialisation on modern lines. His theory of trusteeship and its implications for industrial relations are discussed in the fifth section and his views on charity, leisure and the work ethic in the sixth. The last section discusses the long-run relevance of Gandhian economic thought.

The final chapter describes some of the main themes of Indian economic thought since independence. The chapter is divided into seven sections. The first is on the Mahalanobis model which was officially adopted as the basis of the planning strategy underlying the Second Five Year Plan. The second section describes the response by economists in India, especially from the mid-1960s onwards, to government policies affecting trade and industry, the third is on the determination of savings behaviour and the fourth on explanations of industrial deceleration since the mid-1960s. The fifth section is concerned with the measurement of poverty and the sixth with some issues relating to agriculture. The last section consists of a few concluding remarks on Indian economic thought, past and present.

2 Buddhism and economics

The social basis of Hindu society lay in the four-fold hierarchical division by *varna* sanctioned by religious texts from the *Vedas* onwards. During the sixth century BC serious doubts came to be expressed both about the justification of the *varna* system and the efficacy of sacrificial rites taught by the *Vedas*. Among the 'dissidents' was a man who 'at the beginning of the fifth and the end of the sixth century BC established a community of yellow-robed followers and was known by them as the *Buddha,* the Enlightened or Awakened' (Basham 1954:256). Basham continues, 'Even if judged only by his posthumous effects on the world at large he was certainly the greatest man born in India'. Whether or not one shares that judgment it is relevant to note that for well over a thousand years Buddhist ideas exercised a strong, and at times predominant, influence within India itself and that, regarded either as a code of social conduct or as a method of philosophical enquiry, that influence never entirely disappeared. This was not confined to the Buddhists alone. It was the conflict with the Buddhists that largely stimulated philosophic enquiry in most of the systems of Hindu thought (*cf.* Dasgupta 1975: vol. 1:78).

As in any other world religion there are substantial doctrinal differences between various schools of Buddhism, that between the *Hinayana* (Lesser Vehicle) and *Mahayana* (Greater Vehicle) being perhaps the most well known. These differences are not particularly relevant for our present discussion, which is concerned with the general Buddhist code of conduct for ordinary householders. This would, we believe, be agreed to by most Buddhists, to whichever sect they might belong, although some aspects might be deemed more important by one sect and some others by another.

The chapter consists of three sections. The topic discussed in the first is 'Buddhism and the economic enterprise'; the second deals briefly with 'prices and taxation' and the last section discusses the role of altruism in the Buddhist view of human behaviour.

BUDDHISM AND THE ECONOMIC ENTERPRISE

Weber saw Buddhism as just another oriental religion, other-worldly in spirit and hostile to mundane and material enterprise. That view is still widely held by sociologists, who describe Buddhism as an obstacle to economic growth. A typical example is the grading of countries by type of religion used by Adelman and Morris (1973). The grades A, B and C are defined as follows: 'A, countries in which the predominant religion emphasizes the individual's responsibility for his actions and his ability to influence his environment. B and C, countries in which the predominant religion promotes moderately fatalistic attitudes towards man's capacity to alter his destiny' (pp. 38–9). Accordingly, Adelman and Morris award an A+ to countries with a mixed Christian or Jewish population, a B to those with a Muslim population and a C to those with a Buddhist or Hindu population! The conspicuous economic success during the last two decades of several East Asian countries with a strong Buddhist influence on their culture has made such views appear somewhat implausible while scholarly work on Buddhism based, unlike Weber's, on the original sources has exposed the weaknesses of his analysis. Ling (1988:95) rightly criticises Weber's 'failure…properly to understand the Buddhist way', and writers such as Jayatilleke (1963), Nakamura (1975, 1980) and Gombrich (1988) present a more reliable and balanced account. The Pali texts which constitute the Buddhist canon contain a great many references to economic activity, most of which denote approval, qualified by concern for certain ethical norms.

A recurrent theme in Buddhist texts is that the worldly and the spiritual spheres of activity are not different *in kind,* and that the qualities required for success in them have a large overlap. Thus, in the *Majjhimanikaya,* the ideal recluse is likened to 'a rich and wealthy man on a long journey through the woods who should eventually emerge safe and sound without loss of goods' (i: 180), and also to 'a man who borrows money to start a business, in which he is so successful that he can not only wipe out the original debt, but have enough left over to keep a wife' (i: 277). According to the *Dighanikaya* (ii: 354) a man who embarks on the spiritual enterprise in the right spirit resembles a farmer 'who entering a wood takes with him plough and seed, and in a well-tilled tract, in favourable soil, well-cleared of stumps, plants seed that is unbroken, free of mildew, unspoilt by wind or heat, in season and in good condition'. Had Buddha himself turned his talents to worldly rather than spiritual matters, he would, according to the *Dighanikaya* have been a great success. Describing the young Buddha, it predicts: 'If he leads a

household life the greatest riches will be his' (*Dn.* iii: 157). This is reiterated in several places, for example 'Great worldly wealth, befitting a layman, will be his as this world's lord, but should he renounce worldly wealth he will gain unsurpassed (spiritual) wealth' (*Dn.* iii: 165); and again, more simply, 'If a layman he will prosper much' (*Dn.* iii: 457). These descriptions appear almost to suggest that the road not taken by the Buddha was that of a millionaire! Applied to the founder of any other religion such a description would surely be taken as sacrilege. The favourable attitude of Buddhism to economic activity also comes out in the role that is prescribed for the laity or householders.

The *Vimalakirtinirdesa Sutra* (translated by Luk 1972) spells out this role in some detail. The life and teachings of Vimalakirti, a legendary Buddhist householder, are held up as an example to us all. He is depicted as a layman, living as a householder, eating and drinking, wearing decorative ornaments, surrounded by women and children. He was to be seen in government offices, lawcourts, businesses and schools, sometimes even in brothels and gambling dens. When he was among government officials he tried to teach them correct law and to protect others from suffering injustice at their hands. In times of war he taught kindliness and pity. When epidemics raged he prepared medicinal herbs for people. In times of famine he made food and drink and tried to save people from hunger and thirst 'before teaching them the *Dhamma'* (*op. cit.:* 90). While trying to help all living creatures he did not 'encourage clinging'. Vimalakirti taught that neither monkhood nor household life is an absolute good. Each is to be regarded as an instrumental good, a 'skilful means' for achieving progress on the long road to *nirvana.* The monk Rahula is chided for forgetting this truth and for praising renunciation as an absolute good. True meditation, says Vimalakirti, lies not in just 'sitting there' but rather, in holding on to the *Dhamma* while remaining active in the ordinary business of life. Vimalakirti was faithfully following the teaching of Buddha himself, e.g.: 'Monks, I do praise right conduct in both householder and home-leaver. If rightly conducted both can win the true way, the true *Dhamma* as a result of their right conduct' (*An* i: 69).

Modes of right conduct for householders belonging to specific occupational categories had been prescribed by the Buddha (*An.* i: 116–17; ii: 66–9; iv: 280–1. For the shopkeeper, for instance, right conduct was characterised by shrewdness, capability and the power to inspire confidence among his customers. Shrewd conduct required close knowledge of the market: 'The shopkeeper knows his goods. This article bought for so much and sold for so much will bring in so

much money, such and such profit. That is how he is shrewd' (*An.* i: 116). Capability consists in being clever at buying and selling goods. That he commanded confidence would be evident from the willingness of people, especially wealthy people, to invest in his business ventures. They would then make offers to him saying 'Master shopkeeper, take this money and trade with it; support your sons and wife and pay us back from time to time' *(ibid.).* Likewise, the agriculturist's duty is to ensure that his fields are well-prepared and well-ploughed, that sowing and watering are done at the proper time, and that workers are quick at their work.

There are also some general criteria of right conduct that apply to *all* householders. The householder who succeeds in acquiring wealth by lawful and honourable means and through his own energy and effort; who does not run into debt and retains ownership of his property; who enjoys both material well-being and independence; and who uses his wealth to perform good deeds is commended by Buddha. Such wealth is described by Buddha as 'wealth that has seized its opportunity, turned to merit and is fittingly made use of, and its owner assured of four kinds of bliss: the bliss of ownership, the bliss of wealth, the bliss of debtlessness and the bliss of blamelessness (*An.* ii: 67–8). Some specific commercial activities were, however, forbidden by the *Dhamma*—such as trade in arms, living creatures, meat, wine and poison.

Underlying these various injunctions one can discern a general principle of economic conduct for the Buddhist layman. This is the principle of *appamada* which can be translated as paying attention and taking care. 'The modern salutation "take care"', remarks Gombrich (*op. cit.:* 28), 'would have met with Buddha's approval.' Gombrich lists attention, carefulness, conscientiousness and diligence as basic Buddhist virtues. These are all part of 'taking care'. The householder who seeks to follow the *Dhamma* must therefore work hard, cultivate his skills, and take good care of his possessions. He should not be easily depressed or elated but should carry on his business in a serene spirit, knowing that 'after allowing for loss his income will stand at so much and his outgoings will not exceed his income' *An.* iv: 281–2).

He should avoid either squandering or hoarding wealth. He should practise thrift, to the tune of saving 25 per cent of current income which should normally be re-invested in his own business (*Dn.* iii: 188). This too is a part of 'taking care', in this case, of the future. Finally, he should help others—monks in particular but all living creatures as well. The householder following the path of *appamada* remained a householder and was not, as Thapar (1978:33) reminds us,

'a monk manqué'. It is the neglect of the distinction between monk and householder which is largely responsible for the distorted view of Buddhism as a world-renouncing religion. Gombrich (1988:78) sums up succintly, 'Buddha *never* suggests that laymen should eschew property, he *commends* wealth which is righteously acquired by one's own effort'.

Practising the *Dhamma* is not only good in itself it but can also contribute to material success. A moral person on account of his vigilance acquires great wealth. Buddha, in his sermon to the *gahapatis* describes this as the 'first blessing of a moral person acquired through morality' (*Dn.* ii: 84). Contrariwise, moral lapse often leads to a loss of wealth; indolence, for example, can cause a person to fall into poverty. This is described as the first misfortune resulting from lack of morality *(ibid)*. Similar sentiments are expressed in other Buddhist texts; for example, the *Anguttaranikaya* describes idleness, gambling, consuming intoxicating drugs and sauntering in the streets late at night as not only evil in themselves but leading to material loss. Idleness leads to loss of income, gambling and intoxicants to an increase in expenditures while 'sauntering' at late hours leaves one's property unprotected. Asoka's Seventh Pillar Edict proclaims the same message: 'Those who follow the way of the Dhamma will secure their good both in this world and the next'. Truly, they will have the best of both worlds.

While Buddhism was sympathetic to economic activity in general, when undertaken with care, it was particularly associated with commerce. Historically, the rise of Buddhism in India was a period when there was considerable increase in internal and external commerce, as well as in the organisational strength and political influence of mercantile groups (Thapar 1978:28, 50–2; 1966:124–9). Many members of such groups found the doctrines of Buddhism more to their taste than the old Hindu order with its rigid *Varna* hierarchy, elaborate sacrificial rites, and high tax rates (Kosambi 1956).

Not surprisingly, merchants became Buddhists in large numbers (Thapar, 1978:52). The richer merchants and their guilds also became lavish patrons of the Buddhist monasteries and Buddhist art. The Ajanta temples for instance appear to have been paid for by trades whose business the temples, in turn, helped finance (Beckert and Gombrich 1984:84). Indeed, the Buddhist monasteries were probably among India's earliest and most important 'capitalists' (Beckert and Gombrich, *op. cit.:* 89).

Buddhism also spread outside India along the trade routes. Traders carrying merchandise abroad were often accompanied by a Buddhist monk to teach the *Dhamma.* A.L.Basham comments: 'Allowing for many obvious differences it may well be that the appeal of Buddhism to the merchants of ancient India was very similar to that of protestant reformist movements to the merchants of 16th century Europe' (quoted in Gombrich 1988:73).

The association of Buddhism with commercial activity has been noted for other countries as well. Gernet writes:

> There exists a historical relationship between the penetration of Buddhism into China and the development of commerce between the Far East and the Buddhist countries of Central Asia and India…But Buddhism has also been at the root of the development of economic activity in China itself.
>
> (Gernet 1956:162)

The economic aspect of Buddhism, believes Gernet, was extremely important. For this reason he describes Buddhism itself as a movement 'at once economic and religious' (*ibid.:* 161). To conclude, far from Buddhism being anti-growth it took a far more favourable view of economic activity than most other religions. The contrast with Christianity in this respect is particularly striking. Unlike Christianity, Buddhism never condemned the pursuit of personal material wealth as contrary to religion. Viner (1978) has shown that contempt for worldly goods was a 'fundamental and dominant' element in the teachings of the Christian Fathers. They seldom appealed, as Buddhists did, to 'the favourable temporal consequences of specific pious or moral behaviour' (*op. cit.:* 12); and neither they nor the Scholastics offered any advice, as Buddhists did, on how the temporal prosperity of communities could be promoted. Likewise the Buddhist emphasis on thrift and accumulation was not a part of the Christian tradition. The early Christians held an apocalyptic view of the future of the world and their belief that the end of the world was imminent was very slow to disappear. On such an assumption about the 'planning horizon' the optimal rate of saving cannot be high (Dasgupta 1974:53–5). A lack of concern about the rate of saving continued to be characteristic of Christian writing for a very long time.

Viner points out that in St Thomas, as generally in Scholastic writings,

> there is no express recognition, and much that seem to imply denial, of the possibility that the most socially beneficial use that individuals

> can make of their ability and wealth is to engage in productive enterprise and to reinvest their earnings…
>
> (Viner op. *cit.:* 62–3)

The pro-commerce attitude typical of Buddhism differs not only from the Christian but also from the classical tradition. Most Greek writers saw no moral or economic justification for a merchant deriving income from resale activities which did not involve further processing of goods. Commerce was associated with fraud, avarice, luxury and moral corruption. For this reason Aristotle stipulated that no citizens in an ideal state should be engaged in trade or finance (or manual labour); these tasks should be carried out by non-citizens, the most menial by slaves (*Politics,* 1328 b34ff; Irwin 1989:139). The early Christian Fathers continued this anti-commerce tradition adding strictures of their own on strictly religious grounds. Tertullian, for example, argued that engaging in overseas trade was just as impermissible for Christians as joining the army (see Monroe 1924; Viner 1978 especially 31 and 35–6). The traditional questioning of the legitimacy of ordinary trading profits was carried over into the Scholastic doctrine of the just price (see Viner, *op. cit.:* 85). No such doubts appear to have troubled the Buddhists, although commercial activity by monks was forbidden.

PRICES AND TAXATION

We now turn to specific economic issues discussed in Buddhist literature. There are not many such and those that do occur are seldom treated in a formal or analytical way. There is no attempt, in particular, to analyse problems of price-formation in a systematic manner, although there are in the literature a number of references to how prices of articles were fixed, either on behalf of the state or in the market. An account of how a valuable bird sold by Indian merchants in Babylon, cited by Saletore (1975:436), shows the rudiments of a supply and demand analysis of price-formation and, specifically, the distinction between demand and supply price. The price first offered by the buyers is rejected by sellers as being too low. The buyers then gradually raise their bid till a point of agreement is reached where demand and supply price are equal. Variations in prices are referred to in the *Milindo Panho* where it is stated that a lower price per unit is charged for items of food such as oil seeds, peas, and beans when the quantity bought is small (quoted in Saletore, *op. cit.:* 443). Why this should be so remains unclear, however. Some Buddhist texts also describe problems commonly encountered in price-fixation, whether by law, custom or

competition. For certain goods, such as livestock (especially elephants and horses) and costly items of jewellery or gold, prices were sometimes fixed by the official *agghakaraka* (court appraiser) who could purchase at that price on behalf of government. This was an important and honoured task performed on occasion by the Bodhi-Sattva himself *(Tandulnali Jataka,* quoted in Saletore, *op. cit.:* 436). In fixing the price of such goods, use was made of prices quoted by the dealers themselves. The *Suhanu Jataka* describes an *agghakaraka* who directed the horse dealers to set their own prices and then proceed to strike a bargain. Reference is also made to bribes being offered (unsuccessfully) by sellers to the appraiser in order to make him agree to a higher price (see Saletore, *op. cit.*).

Also of interest are scattered remarks on the optimal rate of taxation. Taxes should be as low as possible and never higher than one-sixth of gross production. A number of different arguments are put forward in favour of this view.

The basic argument is that the proper functions of the king, to whom taxes are paid, are fairly limited. In some Hindu writings kings had been ascribed semi-divine status. Buddhist writers tend to treat such claims with derision. Early Buddhist scriptures even appear to hold a 'social contract' theory, namely that a king was originally a chosen leader of the people, appointed by them to restrain crime and protect property. Accordingly, his right to levy taxes depends ultimately on the efficient discharge of his duties (see SIT, vol. 1:125). A certain minimum level of taxes is indeed necessary for this purpose but anything in excess is really theft by the king for his personal benefit, and to the disadvantage of his people.

Buddhist writings often suggest that kings have a natural inclination to go in this direction. Buddha himself advised Prasenajit, the good king of Kosala, who had come to pay him homage: 'Do not harass human beings; …be not affected by arrogance; …do not take land revenue in excess of the share allowed by the laws' (*Buddhacarita,* XX: 19–21). Forbidden to monks, notes Gombrich, were talks of 'kings, robbers, ministers, war, terrors, and battles' (1988:81). Such a view is not unlike that found in scholastic texts in medieval Europe which describe taxes as 'extortion', 'acts of tyranny', 'exactions' and so forth (Viner *op. cit.:* 104).

A second argument is that low taxes stimulate production. High tax rates, on the other hand, encourage corruption among tax collectors. It is the 'supply side' of economics which receives attention here. Yet another argument is that a state following the path of *Ahimsa* should not, except in a calamity such as flood or famine, have any great need

for revenue. Again this is in line with the mainstream Buddhist view that the proper role of the state is a fairly limited one.

The redistributive function of taxation is also discussed, especially in early Buddhist writing. This refers to redistribution not only from richer to poorer households but also from richer to poorer regions. Both are part of the generalised duty of relieving poverty. *Dighanikaya,* for instance, describes distributing wealth to the needy as one of the four pillars of a king's popularity, the other three being kindly speech, sagacious conduct, and feeling for the common good (*Dn.* iii: 61, 65, 145). The principle of need was also acknowledged by Asoka who proclaimed in his Fifth Rock Edict and Seventh Pillar Edict that disadvantaged persons such as old people, orphans and prisoners must be looked after.

A general theme of Buddhist writing on public revenue and expenditure is that both should be governed by rational principles. This is the lesson that the parable of King Mahavijita in the *Kutadanta Sutta* seeks to impart. Faced with economic crises the king plans a traditional sacrifice or *yagna* to propitiate the gods. His priest suggests that this would be a waste of resources. A more rational means would be to provide agriculturists and herdsmen with food and seed-corn, traders with capital, and government servants with 'wages and food'. This would help increase production, reduce corruption among government officials, increase the king's revenue, and keep the people happy.

ALTRUISM AND ECONOMICS

For the historian of economic thought the interest of Buddhism lies not in any specific piece of analysis but in certain broader insights about human behaviour.

Buddhist writers were among the first to take up the question of what motivates human behaviour in a systematic way; and they were also among the first to make altruism a part of the answer. It is the emphasis on altruism that gives what has been called the 'Buddhist paradigm' of economic behaviour its distinctive flavour. Buddhism teaches us that whether one is seeking wealth or nirvana, one should not be preoccupied with self-interest alone. The philosophy of taking care includes taking care of others. Friendliness, benevolence, compassion, concern for others are at the core of the Buddhist ethic, together with diligence and attentiveness. 'Go monk', said the Buddha 'and travel for the welfare and happiness of the people, out of compassion for the world, for the benefit, welfare and happiness of

gods and men' (*Vin.* 1: 21). The advice does not apply to monks alone. Every person is expected to practise altruism as best he can. However, in the Buddhist account, acting out of altruism is *not* interpreted as a negation of self-interested behaviour. Self-love and love of others are not, observes Buddhaghosa, antagonistic and we should develop friendliness towards ourselves as well as towards others. Indeed it is not possible to love others unless one also loves oneself (see Conze 1963).

Nakamura's (1980:87) account of the economic implications of the Buddhist ethic makes the same point: 'Wealth should be accumulated but used to help others, especially monks, after having served one's own needs'. In the *Lohikka Sutta,* a man who takes care to weed out his neighbour's fields but neglects his own is held up to derision. Altruism, like self-interest, is a normal human concern but it can, and should be, reinforced by both individual and social effort. These values and attitudes were propagated among the people by monks, monasteries, merchants, scholars, teachers and travellers, sometimes by kings and their officials. Asoka, the Mourya emperor, tried to govern according to Buddhist principles, which he also had engraved on rocks and pillars throughout his kingdom. The First Pillar Edict proclaims: 'This world and the next are hard to gain without love of righteousness, great self-examination, great obedience, great circumspection, great effort'. The First Separate Kalinga Edict urges government officials to give up 'habits of jealousy, irritability, harshness, hastiness, obstinacy, laziness and lassitude'. The Twelfth Rock Edict preaches the virtue of tolerance, including tolerance towards those who are *not* Buddhists: 'Concord is best, with each (sect) hearing and respecting the other's teachings'.

In 604 AD, more than a milennium after Asoka's death, Buddhist norms were embodied in the constitution for Japan drawn up by Prince Shotuku Taishi which has been a continuing cultural influence in Japan (Morishima 1982). These have a more practical and less lofty ring but carry essentially the same message. Buddhism itself is mentioned in article 2 which is 'Respect Buddhism'. Article 1 preaches harmony and concord in human relations. Several articles are addressed especially to civil servants who should not accept a bribe (article 5) but should come to the office as early as possible and work overtime (article 8), should respect sincerity which is the mother of righteousness (article 9), and should neither feel jealous of a colleague's good fortune (article 14) nor act from selfish motives but should render service to the people (article 15).

So much for the Buddhist view of the mainsprings of human action. We shall now consider some of the ways in which it bears on the theory and practice of economics. The first has to do with the assumption of self-interest. Interpreted to mean that individuals are motivated solely by self-interest, this assumption now forms the basis of standard neoclassical doctrine. Becker (1976:4) states that the assumption of maximising behaviour based on stable, self-interested preferences, together with that of market equilibrium lies 'at the heart of the economic approach', which should be 'used relentlessly and unflinchingly'. This applies not just to the areas with which economic analysis has traditionally been concerned but to *all* human behaviour

> be it behaviour involving money prices or imputed shadow prices, repeated or infrequent decisions, large or minor decisions, emotional or mechanical ends, rich or poor persons, men or women, adults or children, brilliant or stupid persons, patients or therapists, businessmen or politicians, teachers or students.
>
> (Becker 1976:4)

Hirschleifer in his presidential address to the American Economic Conference in December 1985 on 'The Expanding Domain of Economics', provides an 'authorised version' of the doctrine. Economic man characterised by self-interested goals is very much his hero and he gives an unqualified blessing to what he admiringly describes as 'the imperialist expansion of the economic approach, as defined by Becker, into the traditional domains of sociology, political science, anthropology, law and social biology—with more to come'. Such disciplines will, he predicts, become increasingly indistinguishable from economics. Only economics, perhaps in partnership with socio-biology, provides 'a master pattern of social theory into which the phenomena studied by the various social sciences to some extent already have been, and ultimately will be, fitted'. Human social behaviour, whichever particular aspect of it we may wish to consider, is, and should be, guided by self-interest alone. On such a reading of human nature it makes sense to adopt policies and arrange institutions in such a way that the expression of self-interest remains unrestricted. Free markets will do the rest. This, however, is not the only way of looking at the world; and it is certainly not the way a mind trained in Buddhism tends to look. All human behaviour is not motivated in the same way, agents' interests are not strictly opposed; and people are not solely self-interested. To try to maximise one's utility based on purely self-interested preferences cannot therefore be accepted even as a definition of the rationality principle itself (Sen 1982). Even in areas of activity

traditionally regarded as within the province of economics, to base economic policies and institutional arrangements *solely* on the neoclassical paradigm appears unduly doctrinaire. Their indiscriminate extension to such areas as health and education, where the element of interdependence between agents is stronger, could only signal the triumph of faith over reason.

From the Buddhist perspective, a more rational strategy would be to develop mechanisms of decision making in such a way that both self-regarding and other-regarding motivations can have a chance of working in tandem. To develop such mechanisms is not easy and different devices may be required for different types of activity. A Buddhist paradigm, unlike the prevailing neoclassical one, would start with an explicit recognition that people work not just for the sake of their take-home pay but also for the satisfaction of contributing to a joint endeavour and for the respect one may win from one's peers through one's contribution (*cf.* Dore 1987:136–7). It would therefore be rational for business firms to try to build-up a sense of community in the production process and to develop a system of 'relational contracting' in which business contracts, whether with suppliers, customers or labour are seen 'as an act of admission to an enterprise community wherein benevolence, goodwill and sincerity are explicitly expected to temper the pursuit of self-interest' (Dore, *op. cit.:* 183).

That such considerations could influence economic behaviour was, it is true, mentioned by some classical economists as well, notably by J. S.Mill who described friendly relations between employer and employee as a source of increase in productivity (Collected Works II: 183–4); see also Wicksell (1934:9–10). However, it is difficult to take their influence into account within the limits of an analytical framework focussed on self-interested optimisation and they find no place in the standard contemporary account of microeconomic theory. If they are mentioned at all it would probably be in the literature of management rather than that of economics. It is in discussions of what has come to be described as the Japanese approach to management that they are particularly likely to crop up. That approach itself owes more perhaps to the tradition derived from Buddhist and Confucian thought than to neoclassical economics (Mori 1981; Nakamura 1980; Morishima 1982; Siddharthan 1984; Dore *op. cit.*).

The second issue that we shall consider is the relationship between economic growth and welfare. Does economic growth, defined as increase in real GNP per head, necessarily mean an improvement in welfare? Not so, argue its critics, for people may be no happier than before. This contention has received strong support from the results of

extensive surveys on self-rated happiness (Easterlin 1974). Many people whose real income and consumption levels had increased professed not to have been made happier. One explanation is the relative income hypothesis (Duesenberry 1949), which suggests that an individual's utility depends not on his own consumption as such but on his consumption relative to that of others. Negative externalities of consumption can wipe out the gains of affluence. Every person can thus be made less happy by economic growth even if, in absolute terms, every person's consumption level has improved. Buddha was quite aware of the power of envy. The unhappiness caused by envy is described often in Buddhist texts and sermons. It was thought important enough for a warning against it to be proclaimed in one of Asoka's edicts (Kalinga Separate Edict) and even embodied in Prince Shokutu Teisho's Constitution for Japan (article 14). Envy was not, however, regarded as a purely 'exogenous' factor. A basic tenet of Buddhism is the unity of thought and action. Both are subject to the principle of rationality. From a Buddhist point of view it is just as irrational to give way to envy as it is to squander wealth. The individual can, by sustained effort, succeed in large measure in avoiding such irrationality; and social norms can help.

This leads on to a more general point: the nature of the impact of economic growth on welfare may itself depend on the cultural milieu within which growth takes place. The Buddhist culture, as we have seen, does not merely discourage people from being envious; the development of positive externalities of consumption is one of its basic concerns. This is not true to the same extent of all cultures. As Viner (1978:151–2) demonstrates, the Puritan ethic, especially in its strict Calvinist version, not only does not regard a happy disposition or friendliness towards others as virtues, it even recommends deliberate avoidance of close friendships, of joy in one's work, or of loving one's neighbour for his own sake. It is perhaps this aloof 'killjoy' spirit that has given economic growth a bad name, especially in Protestant countries. Scitovsky (1976) claims that the successful economy is also a 'joyless economy'. This, we believe, is an exaggeration; but to the extent that it is true, the association may be explained by prevailing cultural patterns rather than economic growth as such.

The assumption of altruism also has a bearing on an issue that arises in defining the scope and limits of economics, namely, which relevant group of individuals should it be concerned with? At what level of aggregation, that is, should the analysis and evaluation of consequences of policies be carried out? Buddhist thought suggests that all of humankind should be regarded as the relevant aggregate

(*Sn.:* 601–7). An explicit statement of this principle is given in Asoka's Sixth Rock Edict:

> I am not satisfied simply with hard work or carrying out the affairs of state, for I consider my work to be the welfare of the whole world, of which hard work and carrying out of affairs are merely the basis… There is no better deed than to work for the welfare of the whole world, and all my efforts are made that I may clear my debt to all beings.

Different, and sometimes ambiguous, answers have been offered by economists. Friedrich List (1885:119) distinguished between *cosmo-political* economy and *political* economy proper. The former 'teaches how the entire human race may attain prosperity'; the latter 'limits its teaching to the inquiry how a given nation can obtain (under the existing conditions of the world) prosperity, civilisation and power, by means of agriculture, industry and commerce'. Quesnay was concerned with the former, and it is to him that the term 'cosmopolitical economy' is due. Others followed Quesnay in treating 'the entire human race' as the subject of their study but caused confusion by their sloppy use of terms, among them J.B.Say, who defined political economy as 'relating to the interests of all nations to human society in general' and Sismondi who defined it 'as the science concerned with the well-being of the human species' (List, *op. cit.:* 120–1). The same practice, states List, was continued by the school of Adam Smith which 'does not make the economy of the separate nation, but the economy of society generally, i.e. of the whole human race, the object of its investigations' (*ibid.:* 181).

How far Adam Smith's approach to economics was truly cosmo-political is questionable. Although Smith's study was on the wealth of *nations,* the wealth of a particular nation, his own, was never far from his mind, a point which List himself notes elsewhere. More important, it is the *national* approach to economic analysis which quickly became dominant. This, thought Knut Wicksell (1958:63), was not good enough, for the 'more or less temporary geographical boundaries of states' did not properly define the society with whose welfare economics should be concerned. The goal should rather be to improve the average material conditions of humanity as a whole, i.e. of all persons 'of whatever class of society, race, sex, language or faith they may be' (*ibid:* 66). Contemporary economics has not followed Wicksell's lead, hence its continuing pre-occupation with Gross *National* Product.

Buddha's outlook has much more in common with Wicksell than with List. Not only was his doctrine strongly 'universalist', he was also among the first to argue explicity that groups into which the world's population is divided are not 'fundamentally' different from one another. In his view, among 'grasses, trees, worms, ants, four-footed creatures, serpents, fish and birds different species can be distinguished but differences amongst men in hair, head, ears, skin-colour, etc. are *not* species-characteristics but are only nominal' (*Sn.:* 611). Doctrines based on caste or race commonly hold that differences between human groups *are* fundamental and that in consequence the welfare of some groups is much more important than that of others. Buddhism is incompatible with doctrines of this kind.

3 Kautilya's *Arthasastra:* economics and polity

Traditionally, the *Arthasastra* has been attributed to Kautilya, the famous minister of Emperor Candragupta Mourya. Kautilya, who is also known as Canakya and as Vishnugupta, is regarded by historians as being largely responsible for the overthrow of the rule of the Nandas and for placing Candragupta on the throne of Magadha c. 321 BC. The date of the work is supposed to be around the end of the fourth century BC. Whether in fact is was Kautilya who wrote the text of the *Arthasastra* as it now exists, and if so, when, is far from certain. Reviewing the evidence, Kangle (1986 Part III: 106) concludes that 'there is no convincing reason why this work should not be regarded as the work of Kautilya who helped Candragupta to come to power in Magadha'. However, Kangle himself admits elsewhere (*ibid.:* 108): 'Despite the legends about Kautilya or Canakya preserved in many works information about him that can be regarded as reliable is meagre'. Basham's hypothesis (1954:79) that the existing text is a post-Mourya, but pre-Gupta, work representing an elaboration of a Mouryan original by Kautilya himself is a plausible one. We shall nevertheless follow tradition by continuing to refer to Kautilya as the author, without presuming to pronounce judgment on this controversy. We shall use Kangle's text and translation, unless otherwise indicated.

To turn from Buddhist teaching to that of the *Arthasastra* is to enter a different world. This cannot be explained solely by the fact that the *Arthasastra* teaching reaffirms the sanctity of the *varna* hierarchy which Buddhist thought had called in doubt. Nor is the contrast simply one between the ethical and the economic world outlook. Indeed, the *Arthasastra,* despite its title, which literally means the science of wealth, was *not* an enquiry into the causes of the wealth of nations, but rather a work on polity offering advice to the ruler on how to increase and preserve his wealth and power. The approach has something in common with that of writers belonging to the 'Cameralist' school in seventeenth-century Germany. They too were concerned with

'administrative and policy studies' *('Kameral-wissenschaft')* rather than economic policy as such, regarding themselves as consultant administrators; favoured strengthening unification and centralisation of the state, within its own relatively limited territory (Kangle, Part III: 120–1); emphasised the vital importance of social cohesion (although they did not, like Kautilya, rely on the *varna* system to bring this about, and believed that 'a supreme objective of economic policy was the raising of tax revenue for the prince') (Hutchison 1988:90).

This chapter is divided into four sections. The first sets out Kautilya's view of the economic functions of the state; the second is on taxation and pricing policy. The third section describes the land system and the last one provides some concluding remarks on interpretation.

THE ECONOMIC FUNCTIONS OF THE STATE

The economy described, and commended, by the *Arthasastra* was completely dominated by the state. The government was not merely tax-gatherer but also agriculturist, cowherd, road-builder, cattle-breeder, miner, forester, manufacturer and merchant. Private economic activity other than crop production was only residual and even then subject to strict government regulation and control. While the king, who ruled as an absolute monarch, represented the state, the actual business of government was conducted by a complicated hierarchy of government officials, working in various technical/economic departments each with an *adhyaksha* (superintendent or director) who was an expert in his field, as head. The officials under them were to carry out both the work of administering the kingdom and that of managing its economy. Running the economy in this way required a great deal of detailed information. This was to be provided by regular and careful collection of statistics; by direct observation of conditions by officials; and above all by the employment of a wide network of well paid spies (e.g. 'When he has set spies on the high officials, he should set spies on the citizens and the country people' (1.13.1)).

A state activity to which the *Arthasastra* appears to attach considerable importance is the settlement of land. 'He (the king) should cause settlement of the country, which had been settled before, or which had not been settled before, by bringing in people from foreign lands or by shifting the overflow of population from his own country' (2.1.1). The relative economic merits of different types of land that could be settled are discussed in 7.11, suggesting that there was a plentiful supply of unoccupied land to be reclaimed. For example 'as between a dry tract and land abounding in water, a small land

abounding in water is preferable to a large dry tract because of the continuousness and fixity of produce' (7.11.3). Similarly, preference is given to land that can yield crops without much rain, is suitable for grain crops and so on, i.e. to good agricultural land.

The state was responsible for the proper development of forests, of which it was the sole owner. A distinction is drawn between elephant forests to be established on 'the border of the country' and intended for military purposes, and product forests with economic value (2.2.5–6). The king, states the *Arthasastra,* should establish product forests, one for each important product, as well as factories for manufacturing goods made from forest produce (2.2.5). The state also owned all grass land and the superintendent of pastures was responsible for laying out grass land, digging wells and tanks and planting orchards and gardens in such areas. Likewise he was responsible for the safety of cattle grazing in the pastures and of caravans passing through. Pasture lands could however also be leased out to herdsmen (3.10.21).

Another important area of state activity was the development of mineral resources. All mines were owned by the state. The starting of new mines and the renewal of old discarded ones was thus an important state activity, in the charge of 'the director of mining'. He had to be an expert in *sulbasastra,* geology, and *dhatusastra,* metallurgy (2.12.1), and had to make a survey of all regions where mineral deposits were likely to be found and start new mines and renovate old ones.

Because prospecting for mines is a costly and uncertain business some principles of choice are required. According to Kautilya, those mines are best which yield rich ores, are easily accessible and capable of being operated at a small cost (7.12.13). In earlier times the view had been expressed that a small mine yielding products of high value such as diamonds etc. was to be preferred. As against this, Kautilya expresses himself in favour of a large mine, even if it yields products of comparatively small value, on the grounds that the latter command continuous sale, while articles of high value have a limited market (7.12.14–16).

All mines are clearly state property, but not all of them are to be worked directly by the state. In fact, Kautilya suggests that a mine with high operating costs should be leased out either for a fixed share of the output, or for a fixed rent, and that only a light mine should be worked by the state directly (2.12.22). So far as salt-mines are concerned, these *all* seem to be intended to be leased out for a share or on hire (2.12.28). Workers in the state-run mines may be supposed to belong to the same categories as workers on crown lands (2.24.2). In addition, those disgruntled with the regime are to be posted to the mines (1.13.21), and

their wives and children held as hostages to prevent the men from going over to the enemy.

As always, Kautilya was greatly concerned with the income the state could derive from its activities. In 2.12.35–6, there is a list of twelve kinds of income which, it is said, the state derived from the mines, namely: (1) *mulya,* price; (2) *bhaga,* share; (3) *vyaji,* a sort of sales-tax; (4) *parigha,* the exact nature of which is not clear, but which appears to be a kind of protective duty; (5) *atyaya,* penalty for violation of state monopoly; (6) *sulka,* custom duty (in the case, for example, of imported salt) or excise duty; (7) *vaidharana,* compensation for transfer of state rights of sale to private individuals; (8) *danda,* fine; (9) *rupa,* which seems to refer to the inspection fee of one-eighth per cent; (10) *rupika,* which appears to be a charge for manufacture at 8 per cent of the price; (11) *dhatu* metals; and (12) *panya* commodities manufactured from them. Obviously, mining and the industries based on it were expected to be a valuable source of state income, which accounts for the statement that the Treasury depends on the mines (2.12.37).

Yet another important area of economic activity by the state is trade. According to the *Arthasastra,* the state was to receive a large part of its income in kind. The state also had a monopoly of the manufacture of a large variety of goods. Trading by the state is a natural consequence; indeed the *Arthasastra* prescribes that the state engage in trade on an extensive scale.

State goods, *(rajapanya)* are classified into two distinct categories—*svabhumija,* indigenously produced, or *parabhumija,* produced in foreign lands. The latter implies that the state was to engage in import trade as well. Indigenous goods belonging to the state were to be sold in one place, presumably the capital city, where all state stores were located. Imported goods were to be sold in a number of centres. In both cases, the interests of customers were to be taken into account in the fixing of the selling price. A large profit, it is stated, must be avoided if it is harmful to the subjects, especially 'in the case of commodities constantly in demand' (2.16.4–6).

State goods were normally to be sold by state servants (2.16.14–16), but the aid of private traders could also be sought. In that case, traders were required to pay a fee, to make up for the loss of profit which the state would have earned by sale through its servants (2.16.8–9).

The Director of Trade was also to arrange for the export of state goods to foreign lands. When undertaking such a venture, he was to take into consideration all relevant factors such as costs of transport, duties, prevailing prices in the different places, and so on to determine beforehand if the project was profitable. He could also investigate the

possibility of bartering state goods for those from foreign lands (2.16.18–24).

The general principle of export-import trade is to ensure profits. 'Should there be no profit, he should see if there is any advantage in taking out goods or in bringing in goods in exchange for goods' (2.16.19) and along river-routes he should ascertain conditions of trade beforehand and should proceed to where there is profit, avoiding places where no profit can be had (2.16.25).

It was not just trade in state goods, however, that was under state control. *All* trade was controlled by the state, with the *panyadhyaksa* (Director of Trade) in over-all charge. This implies strict control over pricing, distribution, trade and transport of practically all goods and services. It also involved building roads along which goods to be traded could be carried, as well as measures for providing security to traders *en route.* It is the latter aspect which receives more attention from Kautilya. Because of the risk of attack by forest tribes and robbers, traders normally moved in groups and travelled together in caravans *(sartha).* The *Arthasastra* spells out in some detail just who was responsible for protecting the caravans and for compensating them in case of loss. Inside a state's boundaries, it was regarded as the state's duty to protect the caravans. In return, the state was allowed to charge a kind of road cess called *vartani,* to be collected by the officer at the frontier post, who was responsible for any loss suffered by the caravan on its way to the capital (2.21.24–5). Elsewhere the responsibility for the loss suffered by a caravan appears to have been distributed over a number of officers (4.13.7–10). In addition to *vartani,* there is a reference to *dtivahika*, that is, 'escort charges' (2.16.18, 2.28.25), so we may assume that the state supplied an armed escort to accompany the caravan from the frontier post to the capital.

An industrial activity of the state which is given considerable attention is textiles. This is not described as a state monopoly by the *Arthasastra,* which also refers to private production. However, the state was expected to engage in production of textiles on an extensive scale, and to maintain strict control and supervision of that part of the industry which was in private hands. The officer in charge, the *sutradhyaksa,* was to get yarn spun from wool, bark-fibre, cotton, hemp and flax by women, especially those without support. Women from respectable families, who were not used to going out for work, would be allowed to spin in their homes (2.23.11). There were to be separate factories for weaving different types of cloth, cotton, linen, silk etc. (2.23.8–9). And the *sutradhyaksa* was asked to look after the manufacture of ropes, thongs and straps, useful for carts, chariots, etc. used in the army (2.23.18–19).

Another important responsibility of the state was to arrange for storage of a wide variety of goods. The construction of the stores is described at length (2.5.1–6). Part of the stores was made up of goods produced by state enterprise, the rest were dues received by the state in kind. The stores would be used for making part payment to state servants and others. The remainder would be put up for sale. The stores also provided a convenient means of creating buffer stocks and preventing a wide fluctuation in price, the Director of Trade being expected to buy when there was a glut and sell when there was scarcity.

What scope was left for private enterprise in industry? Hardly any, apart from production carried out by artisans and craftsmen. There were master artisans, employing a number of artisans to do the actual work for the customers, and earning a profit. There were also artisans working independently with their own capital and in their own workshops. In the latter case, the guild *(sreni),* to which the artisan belonged, guaranteed the customer against loss, damage, etc. caused by the artisan (4.1.2–3). That every craft had its own guild appears to be assumed though the constitution and functions of the guild are not precisely stated anywhere in the *Arthasastra* itself. Even artisans were subject to state-control: delay in delivery and failure to carry out the customer's instructions were offences punishable by the state (4.1.5–7). The required percentage of increase or decrease in raw material during the process of manufacture, to which the artisans must conform, are stated (4.1.8–9, 13, 36ff).

State control of agricultural operations on private land was a little less extensive than that of industry. In a normal year decisions on the choice of crops, and the allocation of land among different crops, was left to the farmer himself. The aim of the state was to ensure that it was not cheated of the share of output due to it as land revenue. For this purpose it was to maintain complete statistical records of all agricultural holdings with details about the various types of soil and the crops raised (2.35.3) as well as sowing and harvesting of crops. In times of financial difficulty for the king, much more drastic intervention in agricultural production could be undertaken. At such times, the state was entitled to direct sowing according to its own needs, if necessary supplying the required seed to the farmer.

TAXATION AND PRICING POLICY

In deciding on the activities to be undertaken by the state, an important consideration for Kautilya was their long-run potential for adding to state revenue. The same principle underlies his approach to taxation.

Agriculture, by far the most important sector of the economy, was also the principal source of tax revenue. Normally a one-sixth share of produce was prescribed as tax but in times of emergency, when the king faced 'difficulties concerning money' the share could go up to one-fourth or even one-third (5.2.1–5.2.2). In addition, a number of taxes would normally be levied on the village as a whole, for the maintenance of the army, for buying 'presents' on festive occasions such as a prince's birth, and so on (2.15.3; see also Kangle, Part II: 122, fn 3). For irrigated agriculture, a water rate was an even more important source of state revenue than the land tax. This was payable whenever water from irrigation works was used by the farmer, even if the works belong to the farmer himself.

There was a graduated schedule of the rate to be charged, depending on the nature of the irrigation works used. If the works were such that the water was set in motion by hand, the rate payable was one-fifth of the produce; if set in motion by shoulders, the rate rose to one-fourth; the latter rate also applied to lift-irrigation, water being lifted from tanks, wells, rivers and lakes, while the rate increased to one-third when water was set flowing in channels by a mechanical device. In all cases the water rate was in addition to the normal land tax of one-sixth (2.24.18). This means that a farmer utilising mechanical irrigation which used flowing water would be liable to pay half his produce as tax. Not only is this an exorbitant rate, given the schedule described, the incentive to undertake this kind of innovation would be low. Some incentives were to be provided by prescribing a schedule of exemptions from the water tax for a limited period: five years for newly built tanks and embankments; four years for ruined or abandoned tanks or renovated embankments; three years for those that are cleared after having become over-grown with weeds; and so on (3.9.33).

Tax policy in agriculture as elsewhere was concerned with long-run tax-take rather than just the tax-rate. 'Prosperousness of activities, cherishing of customs, suppression of thieves, control of employees, luxuriance of crops, abundance of commodities, deliverance from trouble, reduction in exemptions and presents in cash—these are the means of increase in the treasury' (2.8.3). As Spengler (1971:72) notes, one of Kautilya's main concerns 'seems to have been the collection and expenditure of revenue in such ways as to build up the permanent revenue yielding capacity of the economy'.

'Kautilyanism' remarks Karwal (1966:387), 'was concerned with the regulation of economic transactions as much as it was with the control of economic operations—transactions between retailers and consumers, merchants (wholesalers) and retailers, employers and labourers, and

lenders and borrowers.' Pricing policy by the state was an important part of such regulation. The state fixed prices of goods, rates of interest, and wages as well as conditions of work. Rules were laid down, violation of which was subject to severe penalties. The regulation of prices was primarily the task of the *panyadhyaksa* (Director of Trade) who needed to be 'conversant with differences in prices' between various commodities and the demand for them ('the popularity and unpopularity of goods of various kinds') (2.16.1). He was to fix the prices of goods, raising or lowering them according to their 'availability and popularity'.

Evidently the Director of Trade was expected to be an expert in determining the value of the various commodities and to be thoroughly posted with the position of supply and demand with respect to each of them. When fixing prices, he had to keep in mind the customers' interests, avoiding 'even a big profit that would be injurious to the subjects' (2.16.1–3; 2.16.6). In deciding on the level at which prices are to be fixed, costs, including interest, had to be covered. In the case of commodities distant in place and time, however, the Director of Trade had to first calculate the investment, the production of goods, duty, interest, rent and other expenses (4.2.36). Particular attention was paid to the pricing of imported goods. In foreign territory, however, he had to ascertain the price and the value of the commodity (taken out) and the commodity (to be bought) in exchange and calculate the profit after clearing expenses for duty, road cess, escort-charges, picket- and ferry-dues, food and fodder and (foreign state's) share (2.16.18). And again:

> Traders shall declare the quantity and price of the goods that have arrived at the foot of the flag. Who is willing to purchase these goods, so much in quantity, at this price? When it has been thrice proclaimed, he should give it to those who have sought it.
>
> (2.21.7–8).

If 'competition among purchasers' pushes up the price (presumably beyond the reasonable or expected level) 'the increase in price together with the duty shall go to the treasury' (2.21.9). The *Arthasastra* has not much to say on economic principles of wage-determination but offers a few scattered remarks in Book 3 *(Concerning Judges)* mostly from a legal point of view. For example, it draws a distinction between two cases, one where wages have been agreed upon between employer and employee prior to the commencement of work and the other, where they have not. In the former case, the text simply states that the worker should receive the wages agreed on: in the latter, wages should be 'in conformity with the work and time' (3.13.27).

In a few cases, the *Arthasastra* is more specific. Thus, if wages have not been agreed upon, 'a cultivator, a cowherd, and a trader should receive one-tenth part of the crops, of butter, and of the goods dealt in by them' (3.13.28). On the other hand, those 'who work in hope (of remuneration)' such as artisans, artists, physicians, attendants, and so on 'should get a remuneration as others of that type do or as experts fix' (3.13.30). A scale of wages for various categories of artisans is prescribed (e.g. 4.1.10, 4.1.22). For work done cooperatively, for example by workers from a guild, or partners in an undertaking, earnings should be divided either equally or as agreed upon among themselves (3.14.18). The same principle applies to priests jointly performing sacrifice, except that 'objects received for each one's special duties' would be retained by the priest concerned (3.14.28).

For fixing wages of workers employed in state industries a little more guidance is offered, though it appears to vary between sectors. Thus the Superintendent of Yarns and Textiles 'should fix the wage after ascertaining the fineness, coarseness or medium quality of the yarn, and the largeness or smallness of quantity (2.23.3), i.e. paying attention to productivity. On the other hand the Director of Agriculture, in fixing remunerations for garden watchmen, cowherds and labourers, should in addition to a fixed monthly money wage which was the same for all, also, 'supply food in accordance with persons dependent on them' (2.24.28). For fixing salaries of state officials at higher levels the operative principle was that the salary should be high enough to make the officials 'insusceptible to investigations and disinclined to revolt' (5.3.3). Those 'moving about for spying' should be paid according to their efforts (5.3.24) and other 'regular and casual servants according to their skill and work' (5.3.33). The rate of interest on loans is dealt with in the *Arthasastra* in a very cursory manner and mainly in a legal context. Perhaps the only point of interest from the economic point of view is the prescription of different maxima on different types of loans. The maximum permitted rate is higher for transactions involving a higher degree of risk. It is, for example, twice as high for debtors embarking on a journey by sea as for those going on a journey through forests and the latter again is double of the interest on routine commercial loans (3.11.1).

THE LAND SYSTEM

In this section we shall consider some economic aspects of the land system as reflected in Kautilya's *Arthasastra.* A basic question about the land-system which has been debated in India since antiquity (see Ghoshal 1930:81–103) is whether all land belonged to the state. Some writers, including some modern ones, have maintained that in India private

ownership of land was unknown. Others hold that both categories of land, state-owned and privately-owned, existed in India from ancient times. Partly, this difference of opinion reflects a difference on how 'ownership' is to be defined. It is also possible, as historians suggest, that the actual position changed over time.

At an early, tribal, stage of Indian society all land was held in common by the tribe as a whole and the king, as the chief representing the tribe, was regarded as the owner of the land. But when, over the generations, individual families continued to hold and till the same separate pieces of land a bundle of rights came to be associated with the possession and cultivation of land; and when in particular the right to alienate by sale was included in the bundle the resulting situation was very similar to what is now described as private ownership of land. This seems to have been the case at the time of Kautilya, who recognises the categories of both state-owned and privately-owned land.

To the former category belonged all *unoccupied* land (Kangle 1965: Part III: 168). Kautilya states that such land, if ready for agriculture, should be given to those who are willing to pay the taxes, a statement which reflects Kautilya's own over-riding concern (or, according to Bhattacharya 1979:89, 'morbid obsession') with the fear of loss of state revenue; the grants in question were, however, to be made for life only, implying that the farmers in this case were *not* owners (2.1.8). Such an inference is supported also by the provision that if the grantees failed to till the fields, they could be taken away from them and given to others, or the state could get them tilled by state servants and traders (2.1.10–11). Land which was not already arable was allowed to be brought under cultivation by whoseoever chose to do so. In this case, the land was not to be taken away (2.1.9) but such a farmer must also be supposed to be a tenant on state land. The state was to help settlers with seeds, cattle and even cash, so that the land could be reclaimed. These, however, were loans, to be recovered at the tenants' convenience (2.1.10–14). Other concessions and remissions in taxes are also recommended at the time of the first settlement (2.1.15–18).

That agricultural land was privately owned is also borne out by a number of legal provisions stated in Book 3 of the *Arthasastra (Concerning Judges)*. Thus, the owner of the field *(ksetrika)* was distinguished from the tenant *(upavasa)*. If either the owner of the field appropriates it for himself or the tenant leaves, at the time of sowing, a certain fine had to be paid, except in the case of 'defect, calamity or unbearable conditions' (3.10.8). If there was a dispute regarding the boundaries between two adjacent fields, and neither party could prove its claim, the disputed portion was to go to the state. The same

happened to land whose owner could not be traced, such land being described as *'paranastasvamikam'* (3.9.15–3.9.17). *'Svamikam'* is derived from *'svamin'* (owner) and as Kangle points out (vol. 2:170) the term can hardly be construed here as one who is in possession. Also relevant here are the laws governing the right of alienation of land by sale, usually regarded as a basic component of ownership. The *Arthasastra* not only states explicitly that landed property could be sold, in a section headed 'The Sale of Immovable Property' it sets out the manner and rules of sale in some detail. Kinsmen, neighbours and creditors, in that order, had the right to purchase landed property. After that, others who are outsiders, subject to certain restrictions: not only for example was cultivable land to be allotted to tax-payers alone, it was a legal offence for a person who did not already own some landed property to make a bid (3.9.7).

The rules also required owners wishing to sell a dwelling to proclaim 'a dwelling' as for sale in front of the house, in the presence of members of forty neighbouring families. In the case of a field, a park, an embankment, a tank or a reservoir the declaration had to be made at the boundaries, in the presence of a number of village elders who were neighbours, the required number varying according to the extent of the boundary. The seller having set a price, they had to ask: 'At this price, who is willing to purchase?' When this had been asked three times and no objections raised, the prospective buyer would be entitled to purchase (3.9.1–3.9.4). Thus a field, or piece of land is included along with other items the sale of which is governed by certain standard regulations. Claims of the state on such a transaction are also specified. The state was entitled as usual to a sales tax, to be paid by the successful bidder. Furthermore, if competition among buyers bid the price up above that declared by the seller, the amount of the excess accrued to the state (3.9.5–3.9.6).

Yet another indication that cultivated land was privately owned is that there was no specific provision for depriving the farmer of land in the event of failure to pay land revenue; it is merely stated that a particular type of officer was responsible for enforcing payment (2.3.5–7). On the other hand, in the case of state lands distributed at the time of new settlement, land could be taken away from a person who failed to cultivate the land allotted to him, and given to another (2.1.10).

While the *Arthasastra* recognises the existence of both state-owned and privately-owned land it offers little evidence on how far the two categories of land differed in respect of land use or tenurial arrangements. State-owned land not cultivated by a state agency could be leased out to sharecroppers. Two types of share-cropping

arrangement are mentioned. One relates to *ardhasitikas* who retained half the produce for themselves, the other to *svaviryopajivins* who could keep only one-fourth or one-fifth of what they produced (2.24.16). In the former case, the cultivators had to bring their own implements, bullocks, seeds, labourers and so on, while in the latter case, the tenants depended on the state for implements and seeds and simply supplied labour. Though the rules about lease are stated in connection with the working of state lands, it is usually presumed that similar arrangements could be made by private owners concerning their own lands. That presumption receives support from (3.11.23) which describes the wives of sharecroppers as being responsible for the debts of their husbands. It appears likely therefore that share-cropping was not confined to state farms alone.

Some Marxist scholars in India have interpreted the *Arthasastra* as advocating a new and radical agrarian policy. Thus, Sharma (1958) credits Kautilya with making a conscious attempt to raise *sudras,* many of whom had been landless agricultural labourers, to the status of peasant proprietors. Similarly, Kautilya has been described as being against landlordism and in favour of cultivation by owner-farmers. Such an interpretation is untenable. Relevant here is Kautilya's description of the elements of excellence in a *janapada* (country or region):

> charming, endowed with agricultural land, mines, material forests and elephant forests, beneficial to cattle, beneficial to men, with protected pastures, rich in animals, not depending on rain for water, provided with water-routes and land-routes, with valuable, manifold and plenty of commodities, capable of bearing fines and taxes, with farmers devoted to work, with a wise master, inhabited mostly by the lower *varnas,* with men loyal and honest—these are the excellences of a country.
>
> (6.1.8)

The list is entirely in keeping with Kautilya's priorities. Here, as elsewhere, his emphasis is on 'factors of production', i.e. on the material basis of wealth and power. A body of loyal and hard-working peasants and farm-workers forms part of that basis, and these qualities could well be expected to have been fostered in people of the 'lower *varnas'* by historical conditioning through the *varna* system. There is nevertheless a point of interest here. In the traditional theory of *varna,* raising crops and farming cattle were jobs allotted to the *vaisyas.* The *sudras* were supposed only to provide services to those of the *dvija* (twice-born) *varnas.* However, as a result of economic growth, trade and commerce began weaning away a large number of *vaisyas* from agriculture to trade, and

more and more *sudras* were required to replace them (Karwal 1962:70–1; Bhattacharya 1979:92). Recognition of these developments underlies Kautilya's extension of the duties of a *sudra,* to include 'service of the twice-born, engaging in an economic calling (agriculture, cattle-rearing and trade) and the profession of the artisan and the actor' (1.3.8). His advocacy of settling villages mostly by *sudra* agriculturists (2.1.2), and his favourable opinion about the lower *varnas* in passage (6.1.8) cited previously, carry the logic of this recognition a step further.

CONCLUSIONS

There are many problems in interpreting the *Arthasastra.* Here we shall comment briefly on a few of them. Firstly, Kautilya's *Arthasastra* is only one of many *arthasastra* texts. It is, however, the only complete work of its kind that has survived, the others being known to us mainly through references or criticisms made by Kautilya himself. The *arthasastra* literature developed, observes Ghoshal (1966:41), as 'an independent branch of learning avowedly concerned with the acquisition and preservation of dominion'. It tried to be independent, in particular of the *Dharmasastras* which represented the Brahmanical canon of the Sacred Law; and it was concerned primarily with *Rajdharma,* the duties of the king, rather than *dharma* in general. Kautilya acknowledges his allegiance to this school throughout his text and especially in its concluding part (Book 15, *The Method of the Science*): 'The source of the livelihood of men is wealth, in other words, the earth inhabited by men. The science which is the means of the attainment and protection of that earth is *Arthasastra* (15.1.1–2). Kautilya, however, pitches his claim for that science higher than most other writers of the school seem to have done. Thus, having distinguished three kinds of primary goods, spiritual goods, material well-being and sensual pleasure, he immediately declares that material well-being, and by implication, wealth which alone can confer it, is the highest of the three. 'Material well being alone is supreme, says Kautilya; spiritual good and sensual pleasure depend on material well being' (1.7.6). It is wealth, not superstition, that leads to achievement of any kind:

> The object slips away from the foolish person who continuously consults the stars; for an object is the (auspicious) constellation for (achieving) an object; what will the stars do? Men without wealth do not attain their objects even with hundreds of efforts…
>
> (9.4.26–7)

An issue which has attracted some attention from scholars is how far Kautilya's *Arthasastra* can be taken to reflect the prevailing practice in India of his time. Basham (1954:80) notes: 'Probably in no kingdom of ancient India, not even in that of the Mauryas, was the influence of the state quite so all pervading as in the system envisaged in the *Arthasastra*…' In Basham's view, Kautilya and others who write either on statecraft or sacred law, describe 'things not as they were in fact but as they ought to be' (*ibid.:* 80). As against this it is fair to note that, unlike the Buddhists, Kautilya had little interest in ethical issues. Almost invariably 'ought' statements that occur in his text are of the instrumental rather than the normative kind.

The long run influence of Kautilya's *Arthasastra* on Indian thought is more difficult to assess. Some later writers praised him to the skies; others reviled him as a monster. Among the former was Kamandaka whose *Nitisara,* a work modelled on Kautilya's, and written probably in the fifth century AD, describes him as 'that learned man who had reached the limits of knowledge…useful in the acquisition and maintenance of the earth' and again as one, 'who churned the nectar of the science of policy from the ocean of political sciences' (quoted in Karwal 1966:392–3). More typical perhaps is the verdict of Vana the author of *Kadambari,* one of the best-known plays in Sanskrit literature:

> Is there anything that is righteous for those, for whom the science of Kautilya, merciless in its precepts, rich in cruelty, is an authority;… whose desire is always for the goddess of wealth that has been cast away by thousands of kings…?
>
> (quoted in Karwal *op. cit.:* 393)

On the whole, despite the acclaim it received and the influence it exercised, Kautilya's *Arthasastra* did not succeed in leaving any permanent dent in the authority of the *Dharmasastras.*

4 Economic thought in the Muslim period

This chapter, which considers Indian economic thought during the Muslim period, begins with a historical introduction, followed by sections on fiscal and monetary policy respectively. An experiment in price-control is discussed briefly in the final section.

INTRODUCTION

The rise of Islam in India dates from the Arab conquest of Sind in 711–12. The Islamisation of a larger part of the northwest of India began early in the eleventh century, following a number of particularly bloody invasions by Mahmud of Ghazni, the self-styled 'helper of the Abbasid caliphate'. During the eleventh and twelfth centuries the northwestern region was governed for the most part by Turkish rulers from their capital in Afghanistan. When, however, one speaks of the 'Muslim period' in Indian history one normally refers to the period from the early thirteenth century, when a Turkish kingdom, the Sultanate was established in Delhi, to the early part of the eighteenth century, when the Mughal Empire started to disintegrate. The extent of the area ruled varied considerably over time. In the course of the thirteenth century the Delhi Sultanate conquered most of Northern India and during the fourteenth its power was established over a large part of the South as well. The fifteenth century was a time of internal conflict, a resurgence of the power of Hindu chiefs in some regions and general political instability out of which a new but weakened kingdom of Delhi emerged under an Afghan dynasty. In the sixteenth century the North was conquered by the invading army of Babur, a part-Turkish part-Mongol adventurer from Turkistan descended from Timurlane and, on his mother's side, from Chingiz Khan. The empire that he founded in India came to be known as the Mughal Empire. Babur's son and successor, Humayun, was overthrown by an Afghan chief, Sher Shah, who had a brief reign but, from the administrative point of view, a highly successful one

(1540–5). Humayun regained the throne of Delhi and on his death was succeeded by Akbar, 'the Great Mughal', whose rule (1556–1605) is remembered as the golden age of the Mughal Empire. During the seventeenth century the empire provided stable government to nearly the whole of the subcontinent. Following its collapse there was almost a century of conflict ending in the rise of British power in India and the political supremacy of the East India Company.

Economic thought in India during the Muslim period can only be properly understood in an Islamic framework. The overwhelming majority of the population, it is true, did not convert to Islam, nor was the structure, or functioning, of village society greatly affected by the conquest. However, the intellectual milieu increasingly took on an Islamic colouring. 'The Muslim State in India', observed Majumdar *et al.* (1967:384) 'was a theocracy, the existence of which was theoretically justified by the needs of religion'. Islam became the state religion, Persian the official language. Time was reckoned according to the Islamic calendar. In the early years of the Sultanate, even the coinage was issued in the name of the Calipha. For economic, or indeed any, ideas to acquire legitimacy, let alone exert influence, it was essential that they should not be seen as contravening the basic tenets of Islam as ordained in the Quran, taught by the *Sunna,* embodied in the *Hadith* and interpreted by the *Ulamas,* and by the ruler himself. Problems of interpretation could arise in judging whether in fact such contravention had occurred and in some matters Islamic law itself allowed a certain degree of latitude. But there were limits.

In some places and periods, the Islamic influence, in conjunction with the legacy of Greek learning, led to an astonishing flowering of speculative thought, and science, mathematics, medicine, jurisprudence and histriography were enriched by it. Economics was not excluded: the writings of Ibn Khaldun in the fourteenth century (quoted in Lewis (ed.) 1974 vol II: 169) contain some of the clearest statements, before modern times, of price-theory in terms of an interaction of supply and demand curves. Islamic learning in India did not follow that path. Insistence on orthodoxy and aversion to innovation remained its basic characteristics. Even the highly sophisticated culture of Mughal India, observes Habib (CEHI 1:307) 'had little curiosity about the laws of nature and neither the elite nor the mass of producers manifested any curiosity, utilitarian or otherwise, about things mechanical'. From the beginning, scholarly activity was geared to preserving the Islamic heritage in a foreign land, a task made more onerous by the fact that unlike Jews and Christians, the Ahl al Kitab, the Indians were seen not merely as unbelievers but idolators to boot (Hardy 1960:113–14; Schimmel 1980:9, 14–15).

The attempt led to a timidity in intellectual attitudes, only slightly exaggerated in Schimmel's account (*op. cit.:* 15). 'Thus the foundations of Muslim learning were firmly laid during the 13th century—so firmly that barely a development or a deviation of thought was ever attempted.' This conservatism itself gives rise to a question which is not without interest for a historian of economic thought. Principles developed many centuries earlier, in a very different environment, were now being used as a basis for the formulation of economic policies for the expanding Muslim Empire in India. Why the attempt to do so did not lead to immediate disaster but rather, for a time, met with considerable success, merits consideration. In an over-all assessement of the economic thought of this period, the question must be kept in mind.

ISLAMIC CANONS AND FISCAL POLICY

We shall begin this account by looking at the economic ideas which helped shape fiscal policy under Muslim rule. In a general way the fiscal policies of the Turkish Sultans of India were based on the doctrines of finance developed by the Hanafi school of Muslim jurists— a school which soon became influential in India. Amir Khusrau, in a poem written in 1289 in praise of India as the home of true Islamic life, observes:

> Muslims here belong to the Hanafi creed
> But sincerely respect all the four Schools
> (quoted in Schimmel 1980:1; see also Schacht 1964:65; Majumdar *et al.* 1967:386)

The influence of these doctrines was weakened somewhat during the Mughal era but did not disappear and they were revived by Aurangzeb with great zeal.

Islamic theology, unlike most others, considers matters of taxation in some detail, and prescribes specific kinds of tax to be imposed by a Muslim king. Here we shall be concerned with two of these—*jizya* and *kharaj*.

The *jizya* or poll-tax on non-Muslims is a specifically Islamic form of taxation, prescribed in the Quran itself. Gathering revenue was not its primary aim. Rather, it was seen as a tribute, a token of submission to the conqueror. Muslims were required to fight unbelievers 'until they pay the tribute out of hand and have been humbled'. Accordingly, it is both a punishment for disbelief and a payment made in return for a guarantee of security of life and property. It was also a payment for exemption from the obligation of military service, to which all Muslim

males were, in principle, subject and hence a price paid for sharing in a public good, defence. Women and children, who were exempt from military service, were also exempt from *jizya.* Because this tax could not be imposed on Muslims, it also provided an economic incentive for conversion. Few Muslim rulers, or writers, mentioned this aspect of *jizya* but Firuz Shah Tughlaq who was Sultan from 1351–85 and an orthodox and pious Muslim, did.

> I encourage my infidel subjects to embrace the religion of the prophet, and I proclaimed that everyone who repeated the creed and became a Muslim should be exempt from jizya…Great numbers of Hindus presented themselves and were admitted to the honour of Islam.
>
> (Quoted in Schimmel *op. cit.:* 22)

There appears to have been some controversy about who precisely was liable to *jizya.* The particular *sura* of the Quran in which *jizya* is prescribed refers to those unbelievers 'who have been given the Book' as the potential assessees. Hindus do not belong to that category. The convention nevertheless was soon adopted that they too would be reckoned as liable to this tax (see Schimmel *op. cit.:* 4–5). Usually, exemption from the tax was granted to Brahmans, as to hermits and mendicants generally.

In the early years of Muslim rule, no sharp distinction appears to have been made between *jizya* and *kharaj* and the same tax was sometimes described as *jizya* and at other times as *kharaj-jizya;* but at least from the time of Firuz Shah Tughlaq it was certainly levied as a separate tax (CEHI 1:67).

On the whole, *jizya* performed a religious rather than an economic role. Collecting it with great zeal was used by rulers as a means of establishing their Islamic credentials. It was highly unpopular and costly to collect, characteristics which it shares with any poll-tax. As a gesture of reconciliation with his Hindu subjects, Akbar abolished *jizya,* arousing much hostile criticism from prominent *ulamas.* It was re-imposed by the Emperor Aurangeb in 1679 as part of his effort to reestablish the supremacy of Islamic orthodoxy which had been somewhat diluted under Akbar and his successors. It was abolished once more shortly before the Mughal Empire finally collapsed. That, however, was little more than a gesture 'Of what use was it', asks Spear (1970:70), 'to abolish they jizya…when one no longer had the power to enforce it?'

As a source of revenue, *kharaj* or land-revenue was far more important than *jizya*. Typically, in a pre-industrial society the finances of the state are derived predominantly from land-revenue. The classic

account of the Islamic doctrine of land-revenue was written in the eighth century by Abu Yusuf, the chief Qadi of Baghdad under the Caliphate of Harun-al-Rashid. He draws a distinction between *ushri* (tithe-land) and *kharaj* (tribute-land), which is of crucial importance in understanding the application of the Islamic doctrine to the Indian context. Under Islamic law as described by Yusuf a conqueror was authorised to dispossess conquered land and distribute it among his Muslim followers (CHI 4:451; Moreland 1968:14). If he did so, the territory concerned counted as tithe-land, being subject to a *ushri,* a tax on the gross output of land. This was not however the procedure normally followed in India.

After India was conquered, the local inhabitants, who were mostly Hindus, retained possession of their land. The country was therefore to be regarded as tribute-land. Accordingly, the sovereign was entitled to *kharaj* or tribute, which was conceived in essence as a share of the produce. The precise share was not, however, laid down in the law. The original idea, described by the early authorities, was that the tribute was taken for the benefit of Muslims anywhere, but as independent states developed in Islam, the tribute realised in any particular state came to be regarded simply as the revenue of the ruler of the state concerned. Correspondingly, *kharaj* remained payable even if the land subsequently became the property of a Muslim through the conversion of its owner to Islam or otherwise (Schacht 1964:131, fn 1). What proportion of the produce was to be paid as tax was not specified by jurists but was determined by the ruler and could vary from case to case (Schacht *op. cit.:* 131), depending on local conditions. Some texts suggested that the rate should be set according to the quality of the land, crops grown, and methods used for watering the land. It was generally agreed by Islamic scholars that because rain was a gift from God while artificial irrigation required an expenditure of labour and capital by the peasant, *kharaj* should be levied at a higher rate on rain-fed than on irrigated land.

On the whole, then, Islam allows the state a great deal of latitude in regard to its principal source of finance. The ruler was free to assess and collect it in the way he judged best, taking relevant circumstances into account. Cummings *et al.* explain this flexibility as follows:

> Unlike *zakat, kharaj* is a form of taxation that can be changed by the Islamic State since it is not ordained in the Quran. Rather, its provisions are based on *ijma* the consensus found in the teachings of the religions scholars. As circumstances change, so may *ijma.*
>
> (Cummings *et al.* 1980:30)

The latitude which the ruler enjoys in Islamic law is not, however, unlimited. There is an upper bound on *kharaj,* arising from economic logic. In Islamic law as stated by Abu Yusuf and others, the ruler could fix the level of assessment as he thought best ‘provided always that such a demand did not cause the peasants to abscond or reduce the area of their cultivation’ (Moreland 1968:15). The jurists warned the ruler against discouraging production by over-assessment. Islamic thought thus nurtured the notion that the role of *kharaj* in generating revenue was closely linked to its effectiveness in maintaining agricultural production. Fiscal and agrarian policies were therefore inseparable. In making this point, what the early Muslim jurists had been concerned with was the importance of avoiding a fall in the area under cultivation. Subsequently, the more ambitious objectives of *increasing* both the cultivated area and the proportion of it sown with high-valued crops came to be emphasised. The idea that improvements in the cropping pattern should be not merely a consideration influencing systems of land-revenue assessment but a direct target for administrative action was adopted for the first time by Muhmmad Tughlaq who reigned in Delhi from 1325–51. He saw this as a means of increasing tax revenue and agricultural incomes at the same time. A special ministry was set up for this purpose, the ‘River Country’ region divided into circles and officials posted with instructions to extend cultivation and improve the standard of cropping. The instructions stated among other things that ‘not a span of land was to be left untilled’ and that ‘wheat was to replace barley, sugarcane to replace wheat, vines and dates to replace sugarcane’ (Moreland 1968:50). In other words, cultivation was to be extended and high-valued crops, wherever possible, were to replace lower-valued crops; and possibly, the pattern of crop-rotation was to be changed as well.

In a more systematic way, the idea that land-revenue assessment should serve as a means of agricultural development was adopted and implemented by Akbar. The fist duty of the Collector of Revenue *(Amlguzar)* stated in the *Ain-i-Akbari* (II: 46) is that he ‘should be a friend of the agriculturist’; and the idea occurs frequently in official documents of the time. Badauni, in describing the system of land-revenue assessment developed by Akbar (quoted in Moreland 1968:101) puts the point somewhat dramatically: ‘In this year a new idea reached the heart for extending the cultivation of the country and improving the condition of the peasants.’ As we have seen the idea was not quite so new. It was rather a ‘traditional’ policy which Akbar followed and in particular he built on the foundations laid down by Sher Shah. The principles underlying it are described by Moreland as follows:

> It was the Collector's duty to secure extension of cultivation, and improvement in cropping; the general idea was that he should offer liberal terms to peasants to induce them to increase production, and should hold them firmly to their engagements once engagements had been made.
>
> (Moreland 1968:112)

In order to bring about improved cropping the collector was authorised to reduce the customary assessment-rates for high-valued crops. Similarly, to help increase the area cultivated the collector was empowered to depart, if necessary, from the 'regulation' system of assessment in force and 'agree to practically whatever the peasants wanted, to either Sharing or Group-assessment, and to payment either in cash or kind' (Moreland 1968:112). The importance attached to the second objective is borne out also by the regulations stated in the *Ain-i-Akbari* dealing with the assessment of land which had fallen out of cultivation and then been broken up afresh. Three scales of assessment are described, to be applied according to circumstances. In the first of these, assessment begins at two-fifths of the ordinary rate and rises to the full amount in the fifth year. In the second, and more favourable, scale a very low charge is made for the first year, rising by degrees to the full rate being charged in the fifth year. In the third scale, which is applicable only to land which had previously been uncultivated for five years or more, the initial charge was nominal, rising to one-sixth, then one-fourth, and finally to one-third of the produce.

The system is remarkable not only for the degree of flexibility in the tax rate which it embodies, but also for the substantial measure of autonomy enjoyed by the collector, who was in a position to contribute by his own decisions to the economic recovery of villages impoverished by war or natural calamity. This required that the Collector be something of an agricultural expert-cum-advisor.

> He should consider himself the representative of the Lord paramount and establish himself where every one may have easy access to him without the intervention of a mediator…He should ascertain the extent of the soil in cultivation and weigh each several portion in the scales of personal observation and be acquainted with its quality. The agricultural value of land varies in different districts and certain soils are adapted to certain crops. He should deal differently therefore with each agriculturist and take his case into consideration… He should strive to bring waste lands into cultivation and take heed that what is in cultivation fall not waste.
>
> (*Ain-i-Akbari* II: 46)

These objectives were indeed largely achieved. During the late sixteenth century more land was brought under cultivation and high-valued cash crops were sown for the market.

Describing the economic objectives underlying the revenue system of the Mughal Empire, Moreland observes:

> To attract peasants to vacate land, to induce peasants to extend the area tilled, to secure improvement in the class of crops grown, these were the permanent ideals, though in practice they might often be masked by the need or greed of the moment.
>
> (Moreland CHI 4:453)

In a society characterised by a low man-land ratio a low growth rate of population (on Habib's CEHI 1:167 estimate only about 0.14 per cent per year over the Mughal period as a whole) and an abundance of cultivable land, these ideals made a great deal of economic sense. They also had the advantage of being entirely in line with Islamic teaching. However, need and greed, specifically the needs of the army and the greed of the Emperor and his friends, were always powerful influences on fiscal policy; and at times, both during the Sultanate and the Mughal Empire, they became the predominant influence. At such times, far from being an instrument of agricultural development, taxes were deliberately used as a means of impoverishment. Alauddin Khiji for example, who reigned in Delhi from 1296–1316 'decided that the true preventive of rebellion was impoverishment' (Moreland and Chatterjee 1945:164). Accordingly, he fixed the revenue at half the gross produce of the land, and arranged that assessment and collection would be carried out by a large body of officials enjoying draconic powers of enforcement.

This probably came very near the entire surplus income of the country after the necessary expenses of the inhabitants had been met 'so that practically nothing would be left for rebellion or other luxuries' (Moreland and Chatterjee *op. cit.:* 164). Indeed his policy was extremely successful in achieving its objective: there was no serious rebellion during most of his reign.

The policies of Alauddin were exceptionally harsh. Under other rules the share of produce taken as land-revenue was often lower than half, though seldom lower than a third. During the reigns of Shah Jahan (1627–58) and, even more, of Aurangzeb (1658–1707) the pressure of land-revenue on the peasant was greatly intensified. Bernier provides the classic account of the consequences. In a survey of economic and social conditions in the Mughal Empire which he wrote for Colbert around 1670 he observes that peasants were 'absconding' to outlying

regions especially to territories held by Hindu chiefs, or were abandoning the land in order to work as servants in the towns or with the army, and that a considerable portion of good land was lying untilled for want of labourers. Moreland concludes:

> It may be taken therefore as an established fact that by this time the danger foreseen by the early Islamic jurists had become a reality, that agricultural production was being diminished by the excessive burden laid upon the peasants' shoulders; and that the efforts of the administration to increase the revenue were in fact leading in the direction of a progressive decline.
>
> (Moreland CHI 4:471)

An eighteenth-century jurist even argued that the land-tax in Mughal India was so very high that it could not be the *kharaj* of Islamic law (quoted in Habib CEHI 1:234), an observation which points once more to the difficulty of defining the precise relationship between ideas and events, referred to in Chapter One.

So far we have discussed certain taxes which, according to the Islamic canon, a ruler was expected to impose. Islamic teaching has usually been interpreted 'liberally', to mean that these constitute a 'minimum programme'. As regards other taxes, the ruler had *carte blanche.* It could, however, also be interpreted more narrowly to mean that *only* taxes sanctioned by Islamic law could properly be imposed. The latter view would constrain the taxing options of the Muslim ruler by ruling out as un-Islamic any miscellaneous, arbitrary exactions imposed on special occasions, often by local authorities. A variety of such exactions were imposed in Muslim India at various times, and became collectively known as *abwab.* These include local sales duties *(octroi),* licence taxes for some trades and special imposts, other than *jizya,* on Hindus, such as taxes on pilgrimage, on bathing in the Ganges, on funeral rites, and even on the birth of a male child (see CHI 4:231–2 for details). Inland transport duties *(rahdari)* on merchandise could also be included in this category since they were not explicitly sanctioned by Islamic law. For this reason, some rulers committed to the stricter interpretation of the Islamic canon felt constrained to abolish them. Among such rulers were Firuz Shah Tughluq and Aurangzeb, who issued edicts on three separate occasions in 1665, 1673 and 1682, declaring *abwab* to be illegal, though in practice such taxes often continued to be levied, especially in outlying regions far from the capital. The mercantile community was singled out for largescale and arbitrary exactions which left them insecure and adversely affected productive investment.

MONETARY POLICY

So far we have been concerned with fiscal policy. Next we shall discuss the influence of Islamic ideas on monetary policy. The most well-known instance is the ban on *riba* (usury) in the Quran: ‘O ye who believe, devour not usury, doubling it again and again! But fear God that, ye may prosper’ (Sura 3:125) and again:

> They who swallow down usury shall arise in the resurrection only as he ariseth whom Satan hath infected by his touch. This, for that they say ‘Selling is only the like of usury’ and yet God hath allowed selling and forbidden usury.
>
> (Sura 2:276–7).

It has sometimes been suggested that in condemning usury, Islam was no different from Judaism or Christianity. It is true that the prohibition of *riba* was a continuation of the Mosaic law as laid down in the Old Testament and the Talmud. The Islamic ban on usury was, however, more comprehensive than its Judaic counterpart, which allowed Jews to charge interest on loans to non-Jews: ‘Unto a stranger thou mayest lend upon usury: but unto thy brother thou shall not lend upon usury’ (Deuteronomy xxiii: 19–20). The Muslim lender did not have any such escape route. The Islamic disapproval of *riba* also cuts deeper than its Christian counterpart. The Christian Fathers, it is true, all condemn usury as immoral, but as Grice-Hutchinson (1978:28) points out, they ‘wrote with the indignation of moralists, not the objectivity of legislators’. The canon law of the Eastern church did not expressly forbid usury, nor did the laws of Justinian. By contrast, the structure of the greater part of the Moslem law of contract can only be explained as an attempt to enforce prohibition of *riba* (usury) and *maisir* (gambling).

The Islamic objection to usury is also more far-reaching than that found in Greek thought. Aristotle condemned usury on the ground that money was ‘meant’ to be essentially a medium of exchange and as such it should be ‘barren’, it should not breed. Charging interest on loans thus represented a departure from the proper use of money. In Islamic law the ban on *riba* does not refer solely to interest on loans or even solely to transactions involving the use of money; it applies for example to barter as well as sales (Schacht 1964:81). *Riba* itself is a special case of a more general category, namely ‘unjustified enrichment’ which the Quran defines as ‘consuming (or appropriating for one’s own use) the property of others for no good reason’ and which it forbids (Sura 2:188; Sura 4:29, 161; Sura 9:34; see also Schacht 1964: 12, fn 2, and

145ff). *Riba* literally means 'interest' or 'excess'. In the context of the Islamic law of contracts, it is defined as 'a monetary advantage without a counter-value, which has been stipulated in favour of one of the two contracting parties in exchange of two monetary values' (Schacht 1964:143). The prohibition applies not only to interest on loans but also to transactions which are deemed tantamount to the taking of interest, such as exchanging seed for corn to be harvested in future.

A ban on *riba* might have been expected to stifle the development of banking and credit and hence of commercial enterprise itself. In practice this does not appear to have happened either in India (CEHI 1: 82–6, 325–59) or in the Islamic world in general. Part of the explanation is that skilful ways of getting round the ban were devised by lawyers, merchants and religious scholars. A body of legal devices, more aptly called legal fictions, was developed with the specific objective of evading the letter of the Islamic law. These came to be known as *hiyal* and were designed to bring the requirements of commercial practice in line with the *shariya.* Schacht sums up:

> The giving and taking of interest corresponded indeed with a requirement of commercial practice but a requirement that the Koran and the Islamic law after it had explicitly and positively banned. The legal devices represented a *modus vivendi* between theory and practice: the maximum that custom could concede and the minimum (that is to say formal acknowledgement) that the theory had to demand.
>
> (Schacht 1964:80)

They came to be accepted by Islamic law as legitimate, though different schools of Muslim jurists differed in their degree of acceptance. The Hanafi school, which became the predominant school of Islamic jurisprudence in India, was the most favourably inclined (Schacht 1964:81, Sourdel 1983:51).

Some of the *hiyal* devices used have been described as 'small masterpieces of legal construction' (Schacht *op. cit.:* 80). They were often modelled on the devices for evading the Mosaic law developed earlier by Jewish experts and described in the *Code* of Maimonides; but to quote Grice-Hutchinson (*op. cit.:* 25–6), 'Just as the Islamic laws against usury were more far-reaching and pettifogging than the Judaic, so were the methods evolved to circumvent them more ingenious and elaborate than the Jewish evasionary devices'. It was, one might say, a matter of challenge and response!

Not all such devices were complicated. A particularly simple one, used in Akbar's reign, is described in the *Ain-i-Akbari* (II: 15). Higher officers of the state in financial difficulty wishing to borrow money

from the treasury 'may now do so without prejudice to their honour or annoyance of delay' on the following terms:

> For the first year, nothing is charged; in the second, the loan is increased by a sixteenth part of it; in the third year by one-eighth; in the fourth year, by one-fourth; from the fifth to the seventh, by one-half; from the eighth to the tenth year, by three-fourths; from the tenth year and longer double the loan is charged, after which there is no further increase.
>
> (*Ain-i-Akbari II:* 15)

This regulation, observes Abul-Fazl, 'brought unprincipled usurers to the proper path and thus prevented much impropriety' (*Ain-i-Akbari* II: 276). Increasing the amount of the principal is, however, hardly different from the charging of interest. The practice of the emperor himself participating in lending activities was continued by Akbar's immediate successor, the Emperor Jahangir, who advanced large loans to private bankers.

While *hiyal* helped prevent the ban on *riba* from inflicting too much damage on the growth of commerce, perhaps an even more important safeguard was that normally the Islamic law did not apply to commercial transactions between non-Muslims. Hindu merchants, money-lenders and indigenous bankers could therefore usually carry on their customary practices unhindered. There were, however, some exceptions to this; for example, in the early period of Muslim rule, when the ban on *riba* does appear to have disrupted the prevailing system of indigenous banking, and again during the reign of the Emperor Aurangzeb (1658–1707), whose desire for Islamic purity led to a drastic fall in the demand for *hundis,* and a decline in banking.

The prohibition of *riba* also has implications for currency policies. A distinctive feature of Islamic law is an elaborate set of rules regulating *sarf,* the exchange of precious metals, especially in the form of coins. A well-known Islamic legal text states: 'The Prophet said, "sell gold for gold, from hand to hand, at an equal rate according to weight, for any inequality in point of weight is usury"' (The *Hedaya of Ali Ibn Bakr*, quoted in Grice-Hutchinson *op. cit.:* 25). One could legitimately exchange gold for silver or copper at an unequal rate, but in theory here too the exchange should be from hand to hand.

This preference for full weight, gold or silver based coinage can be interpreted as showing an implicit concern for money as a store of value. Another characteristic of the Islamic attitude to money is its disapproval of rulers who attempt monetary experiments. One such ruler in our period was Muhammad Tughlaq (1325–51), described as a 'Prince of Moneyers' (see Majumdar *et al.* 1967:313), who began his

reign by remodelling the currency system. As a result of an increase in the supply of gold, there had been a fall in the value of gold relative to silver.

Following the traditional doctrines on *sarf,* namely that the value of coins should represent their actual content of the precious metals, the coinage was changed so as to readjust its value to the changed values of gold and silver. Later, Tughlaq attempted a far more radical and far-reaching experiment, namely the issue of 'token currency'. He appears to have been influenced by the example of Kublai Khan, Emperor of China, who had introduced paper currency in his kingdom towards the close of the thirteenth century. Tughlaq did not go quite so far, proclaiming instead that copper coins would henceforth be legal tender along with gold and silver coins.

The attempt to develop a currency system based on copper, as well as gold and silver, proved to be a disastrous failure, the basic reason being that people lacked confidence in a copper currency. This was compounded by the absence of adequate precautions against forgery. The issue of copper coins was not made a monopoly of the Royal Mint, nor were any special arrangements made to differentiate coins issued by the Mint from those produced by others.

In China, the issue of paper currency by the emperor had been accompanied by strict and elaborate measures to prevent imitation. No such attempt was made by Tughlaq. Perhaps it was just not feasible, the bureaucracy of the Delhi Sultanate being neither so well-organised nor so competent as that of Imperial China. The result was monetary chaos, graphically described by our chronicler. The promulgation of the Edict, reports Barni,

> 'turned the house of every Hindu into a mint, and the Hindus of the various provinces coined krores and lacs of copper coins. With these, they paid their tribute, and with these they purchased horses, arms and fine things of all kinds. The *rais,* the village headmen and landowners grew rich and strong upon these copper coins but the State was impoverished…Every goldsmith struck copper coins in his own workshop and the treasury was filled with these copper coins. So low did they fall that they were not valued more than pebbles, or potsherds. The old coin, from its great scarcity, rose fourfold and five-fold in value.
>
> (quoted in Majumdar *et al.* 1967: 314–15)

Trade and industry suffered, prices rose and the system was widely condemned. Eventually, about four years after it had been introduced, it was formally repealed. In order to restore confidence in the monetary

system, the Sultan paid for every copper coin brought to the treasury at its face value in gold and silver coins, which led to a substantial fall in the reserves of precious metals held in the treasury.

PRICE-CONTROL

The final section of this chapter describes an experiment with price-control carried out by Alauddin Khilji. Essentially, this was intended as an exercise in military finance. In order both to carry out his expansionary policy and to protect his kingdom against rebellion or Mongol invasion Alauddin relied on a large and efficient standing army stationed in the neighbourhood of his capital, Delhi, and paid well, and regularly, in cash from the royal treasury. Inflation had eroded the value of money. Alauddin attempted to reduce and stabilise prices, especially that of food, in the Delhi region. This was done by official regulation of prices backed up by control of supply and, when required, the rationing of consumption. In order to control supply effectively changes had to be made to the revenue system. In this part of the country land-revenue had traditionally been collected in cash (Moreland 1968:37). Control of supply required that at least a part should now be collected in kind. This was done: in the area which supplied the capital with food, from half to the whole of the revenue was now made payable in grain. This was transported to Delhi and stored for issue as required. If, after payment of revenue and meeting their own requirements, the peasants still had any surplus left, they could sell it only to the 'controlled' merchants, specially appointed for this purpose, who had undertaken to deal only at fixed prices and to deliver all produce to the royal storehouse. From there, supplies were issued to retail traders who were also required to sell only at prices fixed by the authorities. The attempt was successful. Controlling the peasants' supplies was fairly simple and did not require much additional administration cost. Controlling the merchants proved a little more difficult but a solution was found. Merchants were compelled to deposit their wives and children as security for their conduct, and pledges were settled under the control of an overseer (Barni's account, quoted in Moreland 1968:37 fn. 2; see also Habib 1984). Maintaining control over the shopkeepers and speculators of Delhi was more difficult still. A highly organised system of espionage, which even Kautilya would have envied, was set up in the capital to check on prices. Several independent sets of spies were employed for this purpose, each spying on the others and all spying on buyers and sellers of food grains. When shopkeepers still cheated consumers by giving short weight, 'the drastic order to cut the equivalent of the deficiency from their flesh eventually brought them into line' (Moreland and Chatterjee 1945:166).

Moreland (1968:36) states, somewhat cryptically, that the essence of the system resembles 'the system of control which was elaborated in England during the years of war and which was proved by experience to be effective'. Presumably, the point of resemblance is that price-control was integrated with the control of supply. As a result, the system worked. Prices were indeed reduced and remained stable at the lower level for a period of about twelve to thirteen years even though there were a number of bad agricultural years during this period. Not surprisingly, however, the system did not survive the sultan himself. Shortly after Alauddin Khilji's death, his system of price-control collapsed, and both prices and wages increased sharply (CEHI 1:88).

5 Famines and famine policy

The developments in Indian economic thought that we shall consider next occurred in a very different historical context: the so-called British Period of Indian history. This itself covers two distinct phases, in the earlier of which the East India Company took over effective power from a rapidly crumbling Mughal Empire, and went on to consolidate its dominion in India. It is in the second phase, from the establishment of direct rule by the Crown following the Mutiny of 1857 to the independence and partition of India in 1947, that the contributions to economic thought to be considered here mostly occurred.

The aspects of the impact of British rule with which Indian economic thought was initially concerned were largely negative. This is reflected in the topics dealt with in this chapter and the next.

Throughout the nineteenth century, especially during its latter half, the causes, cure and prevention of famines were an important topic of Indian economic thought. The following table helps explain why.

Table 5.1 Famine and mortality in India 1800–1950

	No. of famines	*Estimated mortality (millions)*
1800–25	5	1.0
1825–50	2	0.4
1850–75	6	5.0
1875–1900	18	26.0
1900–25	17	4.0[a]
1925–50	13	1.5[b]

Source: Deepak Lal, *The Hindu Equilibrium,* (Cultural Stability and Economic Stagnation: 123, Table 6.2(A), Oxford, Clarendon Press.

Note: (a) Probably underestimate, due to exclusion of high mortality rates for several Central Indian States.
(b) Bengal famine of 1943.

This chapter, on famines and famine policy, is divided into five sections. The first deals with the definition of famine, the second discusses the causes. The basic principles of famine policy in British India are indicated in the third section and criticisms of this policy are considered in the fourth. The final section offers some concluding remarks.

FAMINE DEFINED

In the literature under review 'famine' was not always defined consistently, or even defined at all. Sometimes it was used to refer to a state of extreme or widespread hunger and malnutrition, and sometimes to the excess (i.e. above normal) mortality resulting from such a situation.

The Commissioners appointed to enquire into the famine of 1866 in Bengal and Orissa, defined famine as 'suffering from hunger on the part of large classes of the population', and maintained that this was the meaning of the word in 'its ordinary and popular acceptance' (*Report:* 79). In later discussion the definition in terms of excess mortality also came to be extensively used, firstly because mortality was more easily measured than hunger (though this is perhaps partly illusory since there are serious problems in separating deaths resulting from famine as such from those resulting from famine-related disease) and secondly because it helped to distinguish famine from chronic hunger which was believed to be endemic in Indian society of the time.

Recent work on famine is often based on a broader definition which regards it as a 'multifaceted community syndrome' involving an array of substates ranging from fatal disease to the breakdown of traditional social bonds, together leading to excess mortality (Alamgir 1980:7–8). Elements of such an approach can also be found in the literature under review.

Wandering, for instance, was regarded as a relevant substate. According to the Famine Commission of 1901 'it may be laid down as a general rule that any unusual or aimless wandering of men or herds in search of food or water is a sure sign that famine has already begun and that relief is urgently required' (*Report:* 14). Other 'substates' to which attention was paid were disease, eating of 'famine' food, and crime.

A different approach was used by the *Report on the Famine in the Punjab, 1896–97,* (p. 2) which defined famine as 'the term applicable to the conditions under which people in considerable numbers accept employment at the relief work rates of wages'. This was logically circular, for it defined famine in terms of the degree of public response to the government's famine policy. Whether or not famine was said to occur would depend on the relief wage-rate the government chose to offer. Such an approach, by diverting attention from the level of mortality, had pernicious consequences for policy which we shall consider later.

Definitional problems also arose in distinguishing between famine and scarcity. Some writers draw such a distinction, some do not. Yet others make use of three separate categories *viz.* scarcity, severe scarcity

and famine. The Famine Commission of 1901 felt that it was 'impossible to fix in formal language exactly the point where conditions of scarcity cease and where conditions of famine begin' (*Report:* 7). I agree and for this reason the distinction between them will not figure in my analysis.

Famines, by any definition, did not start with British rule. India had long been subject to devastating famines (see Loveday 1914:135–7; Walford 1878:436–42; Alamgir *op. cit.:* 53–8). Nevertheless, for an economic analysis of famines, the experience of famines in the British period is relevant in a way which that of earlier periods was not. There are two distinct reasons for this. Firstly, neither in ancient nor in medieval India was there any attempt at an economic analysis of famines. Discussion seldom went beyond describing the havoc wrought by them and the specific policies adopted. The *Arthasastra* (5.2) for instance describes the king as being responsible for providing relief to his people in time of famine and suggests ways in which such relief could be financed. Measures for famine relief taken by certain Muslim rulers are also described in some detail in contemporary records. Alauddin Khilji protected the residents of the capital, Delhi, by means of food rationing which was based on transfer of food grains from the countryside; Akbar arranged the free distribution of food on a limited scale and created employment opportunities in fort building, and so on (see Alamgir *op. cit.:* 1980:54–7). While such details are not without interest, especially in showing that the state was prepared to intervene in the grain market, there is hardly any discussion of underlying principles. On the other hand, at least during the second half of the nineteenth century, it was principles that British administrators and their critics argued about.

The second reason is that there were more famines to base arguments on. Famines occurred more frequently, and were probably of greater intensity and covered larger parts of India in the colonial period than in earlier ages (Alamgir *op. cit.:* 58; Newman (ed.) 1990:227; but see Klein (1984) for a contrary view).

WHY FAMINES OCCUR

Traditionally, famine has been regarded as being caused by a failure of crops. 'The proximate cause of a famine in times of peace', observed the Madras Famine Code (1927: vii), 'is the failure of crops resulting from insufficient or untimely rainfall'. Deficient rainfall could also lead to shortage of water and fodder aggravating the food shortage itself. Nash (1900:12) describes as the 'central horror' of the Great Famine of 1897–8

in the Deccan the fact that ‘the misery and torment of a water famine had to be endured together with a famine of food for the people and fodder for beasts’.

Recent work on famine has been more concerned with demand than with supply explanations. It is a decline in purchasing power, rather than in food availability, that is emphasised as causing famine. On this view famine can occur even if the overall supply of food has not declined much, or at all, below its normal level. This can happen if particularly vulnerable groups with little or no assets suffer a drastic fall in purchasing power because of a fall in employment, or in the wage-rate relative to the price of food. Their effective demand for food could decline to dangerously low levels even if plenty of food is still being sold in the market.

The argument can be stated in terms of a person’s food ‘entitlements’ which turn on ‘endowments’ (what goods or services one can exchange for access to food) and ‘exchange opportunities’ (at what rate one can exchange what one earns or owns for food). Famine is seen as an outcome of widespread food-entitlement failures (Sen 1990).

Supply and demand explanations of famine are not mutually exclusive. For a large part of the rural population, income and employment vary directly with the level of agricultural production: a failure of crops necessarily means loss of income and employment and hence a poorer endowment position. Also, for those in either the rural or the urban sector of the economy, who are not buyers of food in the market, a higher food price resulting from diminished supply restricts exchange opportunity. On both counts, food entitlements of households affected decline. In a poor country such households make up a large part of the population and even in a normal year their nutrition is low. A decline in entitlements can push them down from poverty into starvation. Thus crop failures can cause famines through a breakdown in entitlements. On the other hand, failures in entitlement can occur even without deficiency in supply.

The official view of famines in India in this period contained elements of both demand and supply explanations. Thus, while crop failure was usually regarded as the immediate cause of famines, a decline in the demand for agricultural labour was believed to be their most important characteristic. Similarly, Gruz (1989:216) quotes the Executive Engineer Punjab as attributing the Punjab famine of 1899–1900 ‘rather to the want on the part of the people of means of purchasing than to the deficient supply, for owing to the facilities afforded in the way of communications, the import of grain was easily arranged for’.

A recognition of the importance of the demand factors led to the creation of employment opportunities by means of public works being adopted as the chief instrument of official famine policy. The first clear statement of this policy was by C.A.Elliott, Famine Commissioner for Mysore, in 1879. Discussion on famine policy revolved around two main issues: conditions of eligibility for employment; and the level and mode of wage payment. These will be discussed in the next section.

FAMINE POLICY

Authorities responsible for Indian famine policy recognised early that if public works were to serve as an instrument of famine policy while funds available for such works remained severely limited, appropriate criteria were required for deciding just who were to be offered employment. These were provided by Mr Elliott in a provisional famine code for Mysore written shortly after the famine of 1876–8. 'The backbone of famine policy', he stated, 'was the employment of all suitable applicants for relief…' (quoted in Digby 1879 vol. II: 483). Suitability was defined in terms of certain conditions, which, with minor variations, were written into the subsequent famine codes for all other provinces.

The first condition was the 'task-work' test, which required that anyone employed on relief works must 'perform a daily task proportional to his strength' (Digby *op. cit.:* vol. II: 483). *Prima facie,* this seems a direct application of the 'from each according to his ability' principle. In practice, 'proportionality' was impossible to achieve. There were two major obstacles: one was that tasks were set at a *group* level. 'Theoretically', as the Famine Commission of 1898 observed, 'a task is assigned to each individual but in practice it is necessary to fix a task for a gang' (*Report:* 117). The other was that there was little scope for adjustment in the work assigned, for according to norms which were first set out by Sir Richard Temple and served as guidelines to the authorities involved in famine administration, a task work for a gang on relief works once fixed was never to be lowered and severe penalties were to be prescribed for non-completion. A rule that was frequently used was that if any gang failed to complete at least half the task work for the day, every individual in it suffered a penalty which reduced his wage below the 'normal' minimum allowed.

While the task-work test was meant to ensure that a victim of famine must earn his food by hard labour, the 'distance test' required that the labour should be undertaken well away from home. A person would not be eligible for employment unless he was willing 'to labour at a distance from his home not returning there at night but being hutted on

the work' (Digby *op. cit.:* 483). The siting of the works was deliberately chosen in such a way that the distance test could be enforced. The choice was based not on the economics of location but on a principle stated by T.E.Ravenshaw, the Commissioner for Cuttack, that 'work would not come to the people but people must come to the work' (quoted in Patnaik 1980:35).

In Bengal and Behar work was arranged just beyond one day's march from the homes of the people so that the workers could not go home at night. In Bombay and Madras the distance was even longer. In his evidence to the Indian Famine Commission, 1898, Sir Richard Temple, one of the architects of Indian famine policy, noted apparently with surprise, that 'the people dislike going to any considerable distance from their homes' (*Report of the Indian Famine Commission,* 1898, Selected Evidence: 49).

The determination of the wage-rate *was* based on economics. The appropriate norm was a subsistence wage. Elliott's draft famine code prescribed that a worker employed at famine relief works should receive a wage, 'calculated to provide a bare subsistence for himself, but not enough to support any non-working member of the family' (Digby *op. cit.:* vol. I: 483).

The principle of 'bare subsistence' was accepted by the government of India which stated in 1883 that the famine wage should be the lowest amount sufficient to maintain health in given circumstances. This was taken to mean that it should be just enough to survive on. While the government should try to save life it was not bound to maintain the labouring community at the normal level of comfort. This implied that the wage paid should be lower than the market wage.

We shall now pause briefly to consider the question, why *did* famine policy in India come to be identified with public works policy? Traditionally, in India as elsewhere, the government had operated in the food grains market with the aim of improving food availability in famine affected areas. Such a policy was now ruled out. 'Absolute non-interference with the operations of private commercial enterprise', wrote Lytton, in his minute on the famine of 1876–7, 'must be the foundation of our present famine policy' (quoted in Ambirajan 1978: 96); and during the last quarter of the nineteenth century, it was.

Some exceptions to the policy of non-interference were indeed allowed by the famine codes. For instance, the Bengal Famine Code (Revised Edition 1913:104) provides that if the grain trade was paralysed by flooding, measures to encourage supply, such as special transport arrangements, or cash advances to private traders to enable grain to be carried to the affected areas, were permissible. In practice,

however, attempts by provincial governments to make use of such provisions were aborted by the government of India, inspired by its vision of *laissez-faire.* If there was scarcity in any particular region, so ran the argument, grain prices would rise, which in turn would result in a greater quantity being supplied to the region affected. The normal working of the market would do the trick. Any action by government could only make matters worse. These truths had been firmly established by classical political economy and admitted of no further doubt. For the government, non-interference in the grain market was thus essentially a matter of doctrine. Thus during the Orissa famine of 1866–7, the Commissioner of Cuttack condemned any attempt to interfere with 'local trade' because 'under all ordinary rules of political economy the urgent demand for grain in the Cuttack Division *ought to have created* a supply from other and more favoured parts…' (quoted in Patnaik *op. cit.:* 21, italics added). The same argument was used to block proposals to import food into Rajputana during the famine of 1869–70: '1st, that the supply of grain in the district was sufficient *if the Mahajans would only bring it* into the market; 2nd, that it is not a desirable thing for Government to interfere with free trade in grain' (quoted in *Indian Economist,* 10 January 1870, italics added).

Several famines later the argument is repeated by the Punjab Famine Report (1896–7), which states that the policy of the British government was

> to let grain pass freely from one place to another, *trusting that* the interest of the grain dealers will always lead them to send it to the place where it is dearest, that is to say, where it is most needed.
>
> (quoted by Gruz *op. cit.:* 198–220, italics added)

The basic weakness of the argument comes out in the phrases italicised: 'ought to have created' —but has it?; 'if only the Mahajans would' —but what if they do not?; 'trusting that' —but suppose the trust is misplaced? Implicitly the theory is regarded as incapable of being refuted by observation.

CRITICISMS OF FAMINE POLICY

From around the middle of the nineteenth century to the outbreak of World War I, comments on and criticisms of official policy on famines were frequently expressed in the Indian popular press as well as in scholarly writing. This literature will be reviewed briefly in this section.

Much of the criticism was directed at the policy of *laissez-faire* in food grain in times of famine. Often, personal observation of famine conditions led to doubts about this policy. If *laissez-faire* really worked in textbook fashion, asked articles in the nationalist press, why did so many starve to death in recurrent famines? These doubts were not confined to nationalists. J.F.Thomas, a Madras civil servant, asked why

> tens and even hundreds of thousands have perished by actual starvation under British rule, while it is certain that there has been no tampering on the part of government with the grain trade of the country, and the people have been left to the freest use of their own resources.
>
> (quoted in Ambirajan 1978:80)

During the Orissa famine of 1866–7 the same question occurred to Viscount Cranbourne, Secretary of State, who 'wondered why in spite of the applications of the principle of political economy, people were dying in their thousands when famines occurred' (quoted in Ambirajan *op. cit.:* 80).

In non-official circles such doubts were widespread and led some to examine whether classical political economy was really quite so rigid in this matter as government officials supposed and others to an intuition that a more active policy with regard to the grain market could help reduce famine mortality. A coming together of these two strands of thought provided a basis for interventionist proposals. The degree of intervention proposed was fairly limited and specific forms that it could take were also discussed.

One possibility was price fixation. While this had some advocates, others worried about its effect on supply. Adam Smith had stated that a government fixing a 'reasonable' price for corn would reduce supply and hence make a famine worse. This was often repeated in contemporary Indian writing.

A preferred alternative was to try to increase food supply to famine affected regions. This could be done by providing suitable incentives to private traders or even by the state directly procuring food from outside. Such an approach had the merit of qualified approval by John Stuart Mill in his *Principles:*

> Direct measures at the cost of the State to procure food from a distance are only expedient when from peculiar reasons the thing is not likely to be done by private speculation. For any other case they are a great mistake.
>
> (Mill *Principles:* Book V, Ch. 11)

Yet another proposal was to restrict the export of food grain from affected regions during a famine. An article in the *Calcutta Review* (December 1867) under the title ‘The Operation of the Laisser-faire Principle in Times of Scarcity’, argued that freedom of exports during famines was justified only if food prices in the trading countries were roughly equal. In India’s case this was not so. The English price of grain, converted at the ruling exchange rate, was almost double that in India. Hence if there was famine in India traders would still profit by exporting grain to England. This justified restriction of exports.

For free trade in food to be beneficial it is of course *not* required that prices should be equal. The argument is best understood as a rejoinder to Lord Northbrook who had described restriction of exports of food grain as unnecessary because the increase in its price which occurs during famines would itself automatically reduce the quantity exported; but this did not take initial price differences between countries into account (Northbrook’s views on this question are discussed in Ambirajan *op. cit.:* 89).

As regards India’s other trading partners, the rice surplus countries of South-East Asia, the author used a different argument, *viz.* that they did not adhere to free trade themselves:

> Unfortunately for India, Political Economy is not much studied in these quarters. On the first symptoms of scarcity His Majesty of Burmah and his compeers stop exportation and India cannot therefore count with certainty on relief in that direction. The upshot is that Mill’s argument will not apply to this country.
>
> (‘The Operation of the Laisser-faire Principle’: 108)

This argument, too, is invalid, for given that other countries restricted exports, free trade could still be India’s second-best option. Again the interest of the argument lies in its context. Essentially it is addressed to those who argued that export restriction on grain during famines would evoke retaliation in kind. The author’s point is that for countries which already practised such restriction the question of retaliation did not arise.

Yet another reason for discounting the possibility of retaliation was suggested by the *Indian Economist.* Foreign trade, it observed, is based on comparative costs, not irrational fears. ‘So long as Bengal can grow the quantities of rice she now does at the existing price, there is not the remotest prospect of her being beaten out of the field by other lands’ (28 February 1874:173–4).

Occasionally the argument turned to a methodological question: was political economy a method or a doctrine? That it was no more than a method was powerfully argued in several issues of the *Indian*

Economist. Political economy, it was argued 'was not a set of maxims and rules to be rigidly applied to human affairs but simply the science that teaches the results, beneficial or otherwise that follow a certain course of action' (31 January 1874:147). The 'optimal' course 'must be regulated by the circumstances in which you…find yourselves' (ibid*.:* 147). During famine, which is an emergency like all-out war, 'the sole object' of saving life should count. Temporary prohibition of the export of food from Bengal 'in the emergency that has befallen it' is a means of achieving this object and it is in no way a departure from the basic principle of free trade based on comparative advantage. Rather, regarding political economy as dogma is itself a 'perversion of the principles of this great science'. 'Political economy', the author concludes 'has a great many enemies but its worst enemies are to be found among its friends' *(ibid.:* 147).

We shall consider next specific criticisms of the government's public works policy. This became a particularly controversial topic during the affair of the 'Temple ration'. During the famine of 1876–8 the government of Madras was employing adult male labour at its famine relief works at a daily rate of 1 1/2lb of food grains. Sir Richard Temple thought this too high and had it reduced to 1lb. This led to intense debate on the nature of subsistence (Digby *op. cit.:* vol. II: 167–210; Alamgir *op. cit.:* 71–2).

In a report on famine sent to the government of Bombay on 1 February 1877, and in subsequent writings in its journal, the *Poona Sarvajanik Sabha* offered three main arguments against the reduced ration. Firstly, by prevailing standards the amount was too low. It was, for instance, just half of the standard of wages of semi-slave dependants, which itself was 'absolutely necessary to support human life on the wretched scale in use among the lowest classes…' (quoted, Digby vol. I: 341). Likewise, it was lower than prisoners received.

Secondly, even those who survived on this ration would return home so reduced in health that they would be unable to cultivate their land to the proper extent from the tax-paying point of view. Thirdly, the poor are tax payers too. They pay 'the land tax, the excise duties, the salt tax, portion of the customs, more than half the stamp revenue the local levies and the toll' (quoted, Digby vol. I: 341). In return they deserve a better deal than half their food when a bad year comes upon them.

The *Sabha's* arguments were pragmatic rather than analytical, witness its preoccupation with taxes. Also the hazards of relying on a 'relative' concept of basic need (see Dasgupta 1988: ch. 4) were exposed by the prompt response of the Bombay government, which reduced the amount of food served to inmates of presidency jails to the

same level as the Temple ration. Nevertheless the *Sabha* expressed a feeling of injustice that was widely shared.

A more substantial contribution to the debate came from the Sanitary Commissioner of Madras, Dr Cornish, who pointed out that at low levels of nutrition the question of saving life becomes enormously complicated. One complication was that how much food an individual required per day in order to survive differed greatly between individuals, depending on metabolism. In deciding on the level of a famine wage, such variations had to be allowed for.

If the level prescribed provides only just sufficient nutrition on average, the 'aggregation errors' involved could prove fatal to some. Another important complication noted by Dr Cornish was that the true survival wage varied with the time horizon one had in mind. In India, as elsewhere, people have been known to survive for a time on astonishingly low levels of food intake per day, but to take such observed levels as indicating a survival wage is quite misleading, for they cannot sustain life over a longer period. In the process of slow starvation there comes a point of no return after which even 'food of the most nutritious character, and in the greatest profusion' is powerless to save life, because the 'delicate structures engaged in the assimilation of nutriment from food' have by then suffered irreversible damage (see Digby *op. cit.:* vol. II: 237).

Considerations such as these led Dr Cornish to conclude that the Temple ration was too low. Temple responded by conceding that 'there might indeed be a question whether life cannot be sustained with one pound of grain per diem…', but went on: 'this is a matter of opinion and I think that one pound per diem might be sufficient to sustain life and that the experiment ought to be tried' (quoted in Digby *op. cit.:* vol. II: 172). This was described by Cornish as 'blind experimentation on the limits of human endurance' (quoted in Digby vol. II: 192). The experiment, such as it was, was eventually abandoned under pressure of criticism in India and Britain and the more liberal ration restored.

Two other issues that came up are also of interest. One is whether subsistence was to be defined at an individual or household level. It was the former that was embodied in the famine codes. For Temple, as for Elliott, a subsistence wage referred to subsistence for an individual worker employed at relief works. The survival of non-working dependants, it was assumed, would somehow be taken care of by voluntary charity or gratuitous relief. The workers themselves did not share this assumption, but tried to share out their food with members of their family. Which assumption one made on this matter could make a

great deal of difference to one's judgment on whether a particular wage level was adequate for subsistence.

The other point is that the amount of food one requires for subsistence depends on the nature of one's work activity. A precondition of employment at relief works was satisfying the distance and task-work tests, which increased the amount required. When the distance to work was a day's march and the work itself, say, breaking stones, the increase required could be considerable.

Stone breaking was favoured as test-work because, the authorities believed, only those who were in great distress would undertake such work. Gruz (1989:218) comments: 'There was no appreciation of the fact that energy demands of labour would cause great harm to acutely malnourished people'.

Contemporary critics pointed to this as a contributory factor to the high death rates in the relief camps, a contention which is not inconsistent with the remark made by the Indian Famine Commission Report of 1898 that

> in order to safeguard the public funds and to prevent relief works from attracting persons not actually in want, the wage rate has at times and places in the recent famine been allowed to drop below the point at which the worker's subsistence is assured.
>
> (Indian Famine Commission Report 1898:196)

CONCLUSIONS

I shall conclude with a few observations on the wider significance of the literature surveyed.

Firstly, it still has analytical relevance for the economics of famine. The discussion of famine policy in nineteenth-century India, both by exponents and critics, had, for example a direct influence on recent work by Alamgir *(op. cit.:)* on the Bangladesh famine of 1974.

There is also a more specific point to be made: deriving an appropriate policy for famine depends crucially on the precise balance struck between supply and demand factors, between food availability on the one hand and purchasing power on the other. Amartya Sen, who has contributed greatly to gaining general acceptance of the demand-side explanation of famine, writes: 'An undue reliance, often implicit, on the availability view has frequently been a contributing factor in the development of a famine, by making the relevant authorities smug about the food situation' (in Newman (ed.) 1990:378).

The availability view is cast here as the 'villain of the piece'. Likewise, some recent historians of nineteenth-century famine policy in India applaud the authorities for *not* taking that view. Thus Dyson writes:

> It should be emphasised that the British administration undoubtedly appreciated that the famine consequences of drought operated mainly through a loss of purchasing power among the poorest groups, rather than through simple shortage of food.
>
> (in Dyson (ed.) 1989:5)

In similar vein Gruz (in the same volume) concludes: 'Although there were many failings in the government's handling of the situation its analysis was very perceptive' (p. 219).

However, acute shortage of food in regions affected was often an extremely important problem in a famine situation. The preoccupation with public works and the assumption that the untrammelled working of the grain market would quickly restore the equilibrium of supply and demand helped to divert attention from the importance of food availability. This contributed towards the high rates of famine mortality observed.

In the last century, Indian critics were arguing, in effect, that it was undue neglect, often implicit, of the availability view that contributed to the development of famine by making the authorities smug about the food situation. Both demand and supply matter. The literature under review provides fair warning that the availability view should not be buried too soon.

Colonialism also played a role in shaping famine policy in India. Ambirajan (*op. cit.:* 100) describes famine policy 'as a composite of many things—classical political economy, helplessness, frustration, humanitarianism, and even a certain callousness towards human life'. Colonialism as such does not figure in the list. I believe that the omission is inappropriate.

Classical political economy was indeed a formative influence on famine policy. Specifically, it provided the basis for a policy of *laissez-faire* in the grain market. Even so, it would be misleading to regard that policy as a direct application of standard doctrine. The doctrine in question did not provide a blueprint for policy. Its thrust against widespread state intervention in the economy was still consistent with a wide variety of specific policies. Also, not every member of that school held the same opinion on every issue; and at least some British

administrators were quite aware of the many subtle differences between Smith, Ricardo and J.S.Mill on the question of free trade.

The official view, as we have seen, ruled out import of food grain into famine affected areas even if private trade was clearly not 'delivering the goods' and in consequence large numbers of people were dying of hunger. Some contemporary critics regarded this as a caricature of classical political economy. The *Indian Economist,* for instance, commenting on opinions cited earlier that government should not interfere with free trade in grain in any circumstances whatever, wrote: 'It will be remembered that it was the political economists of Bengal, who with drivel of the very same order, sentenced a million men to death in Orissa' (10 January 1870). It had a point.

A certain tension between economic theory and economic policy is not peculiar to colonies. It exists everywhere. Its potential for inflicting damage, however, is often reduced by the operation of the political process. In colonial societies, and indeed authoritarian societies generally, influences of this kind are less powerful. British India became a 'laboratory' for officials with a smattering of political economy to conduct experiments in. That this happened to an extent which never occurred in Britain itself is a reflection of the colonial situation in which India was placed.

I also differ from Ambirajan in holding that it is a multiplicity of objectives, rather than feelings, that is relevant. Because resources are constrained, and not all objectives complementary, one is often achieved at the expense of another. The usual discussion of famine policy, which assumes saving lives to be its sole objective, fails to take such trade-offs into account. Governments have other objectives as well. One such was to test the true extent of distress. Thus, according to the Final Resolution of the Government of Bengal upon the Famine (Calcutta 1898:32) the primary objective of relief works was not permanent relief nor compensating the state for the expenditure it makes, but *testing* the real necessity for relief. Adjusting the scale of relief wages could even be used as a temporary punitive device. The Indian Famine Commission Report, Simla, 1901 states: 'we are unable in any circumstances to approve the retention of so low a wage, except by way of punishment and for a short time only' (p. 38).

A more fundamental objective was to ensure the maintenance and smooth functioning of British rule in India. For this, high levels of military expenditure were deemed essential. The logic of empire required it. The opportunity cost of famine relief in terms of such expenditure forgone was a matter of vital concern to government. It is this that explains the famine relief policy of the government being

always torn 'between two opposite desires of (a) saving life and (b) securing maximum economy in relief expenditure with a view to keeping it to the minimum' (Bhatia 1967:110). Attempts to play down the conflict between the two sometimes led to 'double-speak', as in the following passage:

> While the necessity of preventing as far as practicable death by starvation is paramount, the financial embarrassment which must in any case arise will be most difficult to overcome, and any departure from the most rigid economy, or from the principles in dealing with famine which experience has confirmed as sound, only aggravate it to a degree which cannot be estimated.
>
> (Letter from Government of India to the Secretary of State, quoted in Digby 1879: vol. II:50)

Sometimes the conflict also led to contradictory policies being pursued (see Bhatia, *op. cit.:* 110–11). The same consideration could help explain why famine commission reports so greatly emphasised the *total costs* of famine relief, rather than the ratio of costs to estimated benefits in terms of lives saved. The preoccupation with costs comes out even in the order in which topics are discussed in famine commission reports. The following, from the 1901 report, is typical: 'Reserving the question of mortality for full treatment in the second part of the report, we desire here to notice the cost of the operation' (p. 7). The discussion of famine deaths comes fairly late in the report, in section xix of Part II.

By way of explanation Gruz (*op. cit.:* 217) suggests that while the official understanding of famine in the 1890s captures 'the dislocation effect of famine on agricultural labour causing a loss of earning capacity', it 'led to a preoccupation of the administration with the running and cost of public works, with a consequent neglect of the direct health and mortality effects of the famines'. In my judgment the preoccupation with total cost reflects not so much the logic of a public works policy as that of the Raj itself.

The question of the adequacy of famine relief thus merges into the wider question of the optimal allocation of public expenditure. G.K. Gokhale, whose views will be considered in Chapter eight, favoured an increase in the share of public expenditure allotted for welfare and infrastructural purposes, to be achieved by cutting down on other, especially military, expenditure. A colonial situation, suggested Gokhale, led to a sub-optimal allocation of resources for the prevention and relief of famine. Some more extreme nationalist criticism even described famines as being 'greatly due' to a 'policy of saddling India

with the cost of vast armaments which she cannot bear and which she should not bear' (Dutt 1900: xix), a view which will be considered in the discussion of the drain theory in the next chapter.

The final point in this section concerns the prevention of famines. Famine policy in India concentrated on famine relief, with which our discussion so far has been solely concerned. In principle, however, the famine commissions in India were required to consider measures for 'the prevention and relief of famines'. On whether prevention was possible they were far from confident. The Report of Indian Famine Commission, 1880 (p. 29) described famine as 'really only one, and perhaps not the most deadly of numerous influences by which at present human life among the people of India is cut short', and believed that these could be effectively counteracted only by 'the general advance of society in wealth, knowledge and material resources', i.e. by the process of economic development. 'At present', Indian society had neither the means nor the knowledge necessary to prevent famines. This could change. At some period, wrote Digby 'if the British remain lords of the continent, famine will be as impossible in India as it is in Europe', but that time was 'far distant' and 'frequent famines will meanwhile have to be faced' (*op. cit.:* vol. II: 251). Others were even less 'optimistic'. Lloyd George Hamilton stated in the House of Commons that famine was caused by natural factors and hence that even if the people of India were brought 'to a standard of comfort no European nation has ever attained', if the rains were poor, 'no mortal could prevent India from suffering famine' (quoted in Iyer 1903:11). Overall, the opinion of ruling circles was that preventing famines was an objective that could only be attained in the very long run, if at all. Providing some relief during famine was, on the other hand, 'a part of the job' and during the last decade of the century serious efforts were made to improve the delivery system.

The critics, by and large, had the reverse priorities. As we have seen they were by no means silent about famine relief. Nevertheless, it was prevention rather than cure that remained their primary concern. At the Lahore session of the Indian National Congress in 1900, Tilak declared: 'There is the question of the Famine Code. You may improve it and this may diminish suffering but this can only be a palliative measure. The question before us is whether we can prevent famines altogether' (*Samagra Lockamanya Tilaka:* 417). And R.C.Dutt described 'the intensity and frequency of recent famines' as being 'greatly due to the resourceless condition and the chronic poverty of the people' (Dutt 1900:17).

'The frequent occurrences of famines' stated a resolution on 'Famine, Poverty, Economic Inequity and Land Revenue', moved by B.G.Tilak and passed at the Benaras session of the Indian National Congress on 27 December 1905, 'are due to the great poverty of the people' (SLT: 427). Such poverty and its 'attendant ills of famines and plagues', said Tilak, 'were not inevitable' (SLT: 599). Similarly, P.C.Ray argued that famines were not simply due to inexorable forces of nature but were the result of poverty.

> Surely the elements of nature cannot be convicted of any dread or partiality for the European powers or the Anglo-Saxon Race…Nor are the Indians a particularly bad lot of people who deserve to be punished with God's wrath for their sins.
>
> (Ray 1901:31)

Famines used to occur in Europe in the past but with economic progress they had disappeared. The same outcome could be achieved in India.

Iyer used a more strictly economic argument against the thesis, advanced by Hamilton and others, that famines in India were inevitable even if economic development reached European standards. If the Indian people were to be raised to the European standard of prosperity, stated Iyer, this could only be achieved by developing non-agricultural industries, which are less subject to the vagaries of rainfall. 'The only effect of a failure of rain would be increased prices and not scarcity of food. There might be a pinch but there would be no famine' (Iyer 1903:11).

While famines were not inevitable, they would not disappear simply by virtue of British rule. Instead they would get worse and worse unless urgent steps were taken both by government and the people at large to start India on the path of economic development. Ranade and his followers described in some detail what these steps might be and the debate on paths to economic development in India was itself deeply influenced by the experience of famine.

6 Dadabhai Naoroji and the drain theory

During the last two decades of the nineteenth century and the first decade of the twentieth, the drain theory came to be seen as *the* symbol of Indian economic nationalism. Its basic message, namely that the financial mechanisms by which British rule in India was maintained led to a transfer of wealth and income from India to Britain, imposing a 'bleeding drain' on the Indian economy, was not confined to scholarly writing. It was stated in speeches at public meetings, presidential addresses of the Indian National Congress and editorials of leading daily newspapers, notably the *Amrita Bazar Patrika.* For many it became an article of faith, and for some, it still is.

An opposing faith in the benefits conferred on India by British rule was expressed in British official documents, beginning with the Indian Famine Commission Report of 1880; and more academic writing, for example by Morrison (1911) Knowles (1924–36) and Anstey (1949), continued the same tradition.

This chapter deals with the drain controversy in three sections. The first sets out what the theory was about and describes in particular the three main items of which the drain was said to consist. The second section discusses criticisms of the drain theory by both British and Indian writers. The concluding section looks at the theory in retrospect and considers its significance from both an analytical and a historical perspective.

WHAT IS THE DRAIN?

The drain theory was first developed by Dadabhai Naoroji in a series of speeches and writings subsequently published in 1901, in a volume entitled *Poverty and un-British Rule in India.* Marginal contributions to the theory were also made by R.C.Dutt, G.S.Iyer, G.K.Gokhale and

P.C.Ray. Posterity, not without reason, has tended to look on the drain theory as the brainchild of Naoroji.

Naoroji himself makes no great claim to originality. On the contrary, he purports to regard the concept of economic drain as well-established, attributing it to a number of British writers to whom he amply acknowledges his debt. These include Sir John Shore, who said in his minute to the Fifth Report of the Eastern India Company in 1787 that the company's trade produced no equivalent returns to India; Mr Frederic John Shore, a Bengal civilian, who said in 1837 that India had been drained of a large proportion of the wealth she once possessed; and Mr Saville Marriot, a Commissioner of Revenue in the Deccan, who stated in 1837 that most of the evils of 'our' rule in India arose directly from, or might be traced to, the heavy tribute which the country paid to England (quoted in Ganguli 1965:89–91). These concepts, namely trade with no equivalent returns, the drain of wealth, and annual tribute, formed the core of the theory of external economic drain which Naoroji made his own.

Neither Naoroji himself nor his followers attempted to develop the drain theory in a formal or rigorous way. It was stated in a number of different versions and remains open to a variety of interpretations. It has, for example, been regarded as an expression of patriotic fervour against foreign rule, as an exercise in the economics of imperialism, as an outdated product of mercantilism and as an anticipation of recent neo-Marxist theories of unequal exchange. However, if we restrict ourselves to the form in which it was developed by Naoroji and his immediate followers, the theory appears to have contained a stable core. This emerges clearly from some recent characterisations of the drain theory by two authors whose basic points of view are quite different. The first is Bipanchandra:

> In the opinion of Indian national leadership one of the most important causes of the poverty in India was the drain of wealth to England …In fact, a great deal of the national agitation during the period under study was based on the drain theory or the belief that a part of the national wealth or of its total annual product was being exported to England for which India got no adequate economic or material return. Or in other words, India was being compelled to pay an indirect tribute to the English nation.
>
> (Bipanchandra 1965:103)

The other is Barber (1975:227), who describes the drain theory stated by Indian nationalists as consisting in the belief that 'the unilateral transfers

that India was compelled to make to Britain systematically stripped the country of resources and thus perpetuated poverty'.

On the whole, writings by Indian nationalists in this period do not suggest that they were using 'drain' as a catch-all term for the evils of foreign rule but rather show that they had a fairly specific sort of drain in mind. As Dharma Kumar (in CEHI 2:937) has pointed out, whether or not there was a drain from India depends on the question of whether India received value for the sterling payments made or whether it was forced to pay too much, and this is a question which can only meaningfully be discussed item by item. According to Indian writers the most important item was the remittance to England of a proportion of salaries, incomes, and savings by civil, military and railway employees of British origin, as well as by professionals such as lawyers and doctors. These, together with the payment in sterling by the government of India of the pensions and furlough allowances of British officials, constituted a heavy burden on the resources of a very poor country. The excessive sterling cost of Indian administration was attributed to British policies such as that of excluding Indians from the higher ranks of the civil services.

Raja Rammohan Roy had suggested as early as 1831 that government expenditure could be greatly reduced by appointing Indians in place of Europeans in most administrative and judicial posts. British colonial rulers showed even less enthusiasm for such an approach than the East India Company had done. Efforts in this direction were made by Lord Rippon, who was sympathetic to Indian aspirations, but they were scuttled by the pressure of official opinion which favoured keeping the civil services white. Illustrative of the gulf between the British and the Indian points of view was the controversy over lowering the maximum age limit for recruitment to the civil service, which became a point of widespread debate in India during the 1880s. Between 1853 and 1883 only twelve Indians had been recruited. The gradual lowering of the maximum age limit for candidates, from 23 to 22, then to 21 and subsequently to 19, had, it was felt, made competition increasingly difficult for Indians, who on average graduated at a higher age than their British counterparts. It was said on the British side that the main reason for the change was to encourage English candidates to sit for the examination and go out to India when still fairly young but Indians, not without reason, regarded it as a deliberate step to exclude them. Gopal (1953:169) observes that there were few matters on which Indian opinion was more bitter or unanimous than on the reduction of the age limit, the feelings aroused being entirely

disproportionate to the numbers affected. Nevertheless, Rippon's attempt to restore a higher age limit proved to be futile.

The privileges of civil servants of British origin were also increased over time. In 1893–4 they were granted exchange compensation to the tune of 15–20 per cent so as to maintain the gold value of the remittances, a step which was criticised by Gokhale as contributing to an increase in the drain. A number of arguments were advanced by Indian economists in favour of recruiting Indians to the civil services. One, of course, was that it would reduce the drain. Another was that it would increase efficiency. After all, Adam Smith had taught that monopoly breeds inefficiency. Why then should Britain be a monopoly supplier of administrative services? Yet another argument was that the experience of government service by Indians would foster learning by doing and so contribute to India's long-run development. As far as this particular item is concerned the drain theory does appear at this distance of time to have had a certain measure of justification.

Another item about which Indian opinion was much concerned was military expenditure. Just as in the case of civil servants, the remittances of a proportion of salaries, incomes and savings by British military personnel and the payment in sterling by the government of India of pensions and other allowances of British army officers, constituted an item of drain. So did the cost of military stores supplied to India and the various military charges paid in England by the government of India. All these items formed part of the so called Home Charges. The level of payments on these accounts varied directly with the overall level of military activity in India and abroad. That level remained consistently high throughout. In 1880 the Indian tax payer supported 130,000 Indian and 66,000 British troops. Lord Salisbury described India as 'an English barrack in the Oriental seas from which we may draw any number of troops without paying for them' (quoted in Tomlinson 1975:341).

One important reason why the army cost so much, was the rule, laid down in 1858 and strictly adhered to afterwards, that there should be one British to every three Indian soldiers in India and that no Indian should hold a commission. Not only the expenses of the Indian army itself, but also those incurred on account of British troops stationed in India, had to be paid for from the Indian budget. Furthermore, Indian troops were often engaged in imperial wars far from India. Frequently, either the whole or a very large part of the expenses incurred in such wars had to be paid for out of Indian revenues. Indian troops served in Persia during 1856–7, twice in China during 1857–60, and during the Boxer rebellion of 1900 where they shared in the siege of Peking, in

the Abyssinian campaign of 1864, the second Afghan war in 1878, the Egyptian expedition of 1882 and on many other occasions elsewhere. As Lawrence observed in 1864, India was treated quite differently from the colonies 'No one would think of asking any of the latter to pay a portion of the expenses of Afghanistan. No statesman would charge Canada or Australia' (quoted in Davis and Huttenback 1986: 155). All this not only imposed a considerable burden on the Indian budget but also involved payments to be made partly or wholly in sterling.

It was considerations of this kind that a number of Indian economists and writers, notably G.K.Gokhale, were drawing attention to. Subsequent research has borne out quite clearly that they had a point. Davis and Huttenback sum up:

> India was a poor country and it was being asked to subsidise imperial defence out of all proportion to its position. Not only was it being forced to bear a substantial portion of the costs that should have fallen on other parts of the empire, but it was being asked to shoulder a portion of the British burden as well. India paid the direct costs of both Indian and British troops in India, as well as some fraction of the cost of Indian troops used in largely imperial adventures. The sub-continent thus supported a military reserve for the entire British empire.
>
> (Davis and Huttenback 1986:155)

The third item which Naoroji and some of his followers included in the drain was remittances made in sterling of interest on loans for construction and maintenance of public works such as railways, irrigation works, etc. The case for regarding this item as drain is, however, much less convincing. Naoroji himself was aware of this and stated:

> I must not be misunderstood, I consider these loans as one of those things for which India is under special obligations to England. I do not allude to this item in any spirit of complaint…I only mean that the interest, even supposing it to be all earned by the railways, though forming part of the exports of India, is not part of the commerce of India.
>
> (quoted in Ganguli 1965:92–3).

Such a qualification was not required, however, in the case of interest on unproductive debts such as those required for military expenditure. The refusal to accept interest payments as a genuine item of international commerce reflected Naoroji's 'physiocratic' view of the role of services. That payments for invisible exports were just as legitimate as those for merchandise remained

a foreign idea to him. A similar difficulty prevented him from appreciating that payments for transport services formed part of national income, in the same way as the value of goods transported (see p. 130).

CRITICISMS

We now turn to criticisms of the drain theory, and start by considering the British response which, not surprisingly, was hostile. Earlier views, such as those of Sir John Shore, on which Naoroji had drawn when developing the theory, were no longer looked on with favour. Instead, the drain theory was seen as an attack on the foundations of British rule in India. Official spokesmen for the government and academics rallied to defend the Raj.

The most cogent reply was given by Sir Theodore Morrison in *Economic Transition in India,* which was published in 1911 and favourably reviewed by Keynes in the same year in *Economic Journal.* Morrison did not, however, question the validity of the concept of an economic drain. His definition of the drain as the value of that part of India's 'exports in goods or money for which she receives no material equivalent' (*ibid.:* 193) was not much different from Naoroji's own definition. That India received no 'equivalent' return for part of its exports was common ground between Indian exponents of the drain theory and its British critics. Their difference was on how large a part this really was.

Drain theorists, according to Morrison, had greatly exaggerated the magnitude of the drain. In part, this was because when calculating the export surplus they had failed to allow for relevant deductions. For example, they failed to take into account the fact that part of the export 'surplus' was balanced by invisible imports such as shipping services, insurance charges and expenditure by Indian students and travellers abroad. Neither, claimed Morrison, had they taken imports of gold and silver into account.

Secondly, a part of the so-called drain represented interest on foreign capital. The capital itself, argued Morrison, was productive. It was used to build railways and irrigation works, tea plantations and jute mills. All these not only contributed to national income but made long-run economic growth possible. Rather than complain about a drain, Indians should be grateful to British investors for making good the deficiency in India's domestic capital resources. The benefit to India was all the greater because the British connection enabled it to borrow in the world's cheapest capital market. Borrowing in India, even if it were feasible, would have been far more expensive. Indeed, the saving to India on account of the cheapness of its public debt was 'not very far

from being enough to wipe out the whole of the political drain' (Morrison *op. cit.:* 224; 239–41).

As regards other items of the Home Charges, Morrison admitted that India was treated differently from other colonies, but claimed that the amount involved was not high. More important, India gained the benefits of good government: peace and order, security against foreign aggression, and a modern, efficient administration. India had thus got an administration 'favourable to economic evolution' cheaper than she could provide it herself' (*op. cit.*: 241).

Morrison's critique of the drain theory is only 'good in parts'. That Indian statistical estimates of the magnitude of drain were usually biased upwards has already been observed. On the other hand, Morrison's own treatment is selective and one-sided. Take for example his observation that Indian writers had forgotten to take the import of bullion into account when calculating the export surplus. This is not true of, say, Gokhale who, in his presidential address to the Indian National Congress of 1905, when describing the 'great and ruinous drain of wealth from the country', referred to 'the net excess of exports over imports *(including treasure)'* (quoted in Bipanchandra 1965: n. 132:141, italics added). Similarly, when drawing attention to the low rates of interest at which loans were available in the British capital market, he fails to mention that G.V.Joshi, a well-known exponent of drain theory, had made the same point. Joshi (1912:114-ff) had come out in favour of sterling rather than rupee loans being made to finance such enterprises as railway construction both because sterling loans were cheaper and because, India's capital resources being limited, diverting them from industrial investment would be undesirable. Again, the case for Indianisation of the services, which was central to the nationalist argument, is not taken up by Morrison at all.

Criticism of the drain theory was not confined to British writers. A number of Indian nationalist writers, too, argued against one or other aspect of it. Bankim Chandra Chatterjee in a number of essays published in the influential Bengali journal *Bangadarshan,* examined the drain theory from the point of view of the agricultural economy of Bengal. There was one element of the theory that he, like others, did accept, namely that remittances abroad from salaries earned in India by government officers of European origin drained wealth away from the country. However, the view that such drain led to increased poverty in India was, he held, quite mistaken. Chatterjee anticipated Morrison in arguing both that the amount involved was small (1892:279) and that it was more than compensated for by the good administration resulting from British rule (*op. cit.:* 266). Furthermore, argued Chatterjee,

poverty, especially in rural Bengal was *not* increasing. While Bengal was poor compared to some European states, there was no reason to believe that Bengal was poorer than she had been in the past. On the contrary, there was ample evidence to suggest that wealth was *increasing*. Improved administration itself had helped to bring this about. There was now less fear among people at large of robbery, burglary, foreign attack or of government officials who were no longer free to rob ordinary people of their savings by hook or by crook. 'If someone wishes to save he can be confident that he and his progeny would be able to enjoy the fruits of it' (Chatterjee 1892:266). Higher levels of security and savings had encouraged an increase in population. This, in turn, had led to an increase in the extent of cultivation.

Another reason for improved prosperity, according to Chatterjee, was an increase in the volume of trade. Those who thought an increase in trade meant a loss of wealth were simply confused. This applied equally to exports and imports. Chatterjee goes on to attack the argument of unequal exchange, which was an element in some versions of 'drain' and indeed is still with us:

> If we spend 6 rupees in buying British cloth we are getting a commodity in exchange for it. If we spend more than the fair price for it, we lose. But if we cannot buy that cloth for less than Rs.6 from elsewhere the price is *not* unfair. Hence, the country does not lose.
>
> (*ibid.:* 274–5)

Again, domestic production is not necessarily more advantageous than imports. If we had bought 6 rupees' worth of cloth from a domestic weaver, the money would, it is true, have remained in the country rather than being remitted abroad. That, suggests Chatterjee, is not particularly relevant, for one must consider the price per unit at which the cloth is sold. If the domestic weaver could have sold the cloth at the same price (Rs. 6) we would have bought from him, not from a foreigner. But in that case the foreigner would not have tried to sell it either. Consumers gain by buying from the cheaper imported source.

What about the loss to the weaver? Because imported cloth was cheaper and Indian consumers bought foreign cloth in preference to the domestic product, weavers lost their trade. But the answer, suggests Chatterjee, was for them to take up other trades. Some lines of production faced reduced demand but for others there was increased demand. There was also increasing demand for Indian goods in British markets. The problem, if any, was the reluctance of our countrymen to change their traditional occupation, not the increase of trade. Neither by

import nor by export were foreign traders taking our money away. On the contrary, our wealth was increasing because of foreign trade.

A much more influential dissident from the theory was Ranade, who expressed his views on the 'drain' in his inaugural address at the first Industrial Conference at Poona in 1890 (*Essays on Indian Economics:* 186–7). He did agree that expenses for the purposes of administration, defence and payment of pensions to British officers stationed in India could 'so far as they are not necessary for the defence and good government of India' represent an element of drain. As against this, however, we have to take into account 'the fact that we are enabled by reason of this British connection to levy an equivalent tribute from China by our Opium Monopoly'. Furthermore, so far as the drain 'represents interests on monies advanced to, or invested in our country, far from complaining we have reason to be thankful that we have a creditor, who supplies our needs at such a low rate of interest'. Also, there was no reason to complain as regards 'the value of Stores supplied to us, the like of which we cannot produce here'. Ranade regarded the drain question as essentially a political one. He exhorted his readers not 'to divert and waste your energies in the fruitless discussion in the question of tribute which had better be left to our politicians'. There were many and more serious impediments to India's industrial progress; the want of proper organisation, leadership, banking systems and a trained labour-force. Ranade's views on these deficiencies and how to remedy them will be considered at length in Chapter seven.

LONG-RUN RELEVANCE

This section looks back at the debate on the drain theory and considers its long-run relevance. The section consists of three brief remarks. The first of these is methodological and concerns the economic analysis of unilateral, i.e. non-commercial, capital payments made by one country to another.

In modern economic literature such payments have been discussed under the rubric 'the transfer problem'. A well-known instance is Keynes' analysis of the economic consequences of the payment by Germany of war reparations imposed by the Treaty of Versailles following the end of World War I. This analysis pays considerable attention to the link between such capital transfer and the terms of trade. Neither Naoroji or Dutt analysed the problem from this point of view. Some other Indian writers on the drain do, however, show an awareness of the relevance of its trade theoretic aspect. This they derived from their reading of J.S.Mill, who had always been a favourite among Indian economists and who had brought out the link between

reciprocal demand and commodity terms of trade. Thus, Iyer (1903:357–8) refers to the drain as arising not only out of a direct *unrequited* outlay but also because 'it forces India to exchange her produce on less advantageous terms, as pointed out by J.S.Mill in a well-known passage'. The passage in question reads as follows: 'A country which makes regular (non-commercial) payments to foreign countries, besides losing what it pays, loses also something more, by the less advantageous terms on which it is forced to exchange its production for foreign commodities' (*Principles;* also Viner 1937: 535). Had Iyer, or others of the school, developed the point they could perhaps have made a contribution to trade theory. As it is, it remains peripheral to their analysis of drain.

The second point concerns the magnitude of the drain. As we have seen, Naoroji saw 'drain' as a continuing transfer of resources from India to England without India getting any equivalent economic return. Accordingly the excess of exports over imports, 'unrequited exports' as he called it, appeared to him to be an appropriate way of measuring the drain. In the writings of Naoroji and his followers, as Bipanchandra (*op. cit.:* 107) has observed, this excess was 'simultaneously referred to as the proof of the existence of the drain, the form of its remittance, and the measure of its extent'. Using this general approach, estimates of the drain were computed for various periods by Naoroji himself (*Speeches:* 318–21), Dutt (*op. cit.:* xiv, also 528–9), Joshi (*op. cit.:* 639–40) and others. They were expressed either in terms of rupees or sterling and also as a proportion of Indian revenue, either gross or net. Despite using a common methodology, the estimates varied widely among themselves. A widely publicised figure was due to R.C.Dutt, who found that on average 'one-fourth of all revenues derived in India was annually remitted to England'. Thus, during the last decade of Queen Victoria's reign a sum of £159 millions out of a total revenue of £647 millions was remitted (Dutt *op. cit.:* xiv).

In recent years a number of historians have tried to re-estimate the drain. In their view the export surplus measure, even with adjustments, leads to over-estimates of drain. Instead, they define the drain as that part of Home Charges which could be regarded as unnecessary or unproductive. They also tend to express the drain as a proportion of national income rather than of public revenue. The resulting estimates are low. According to Mukerjee (1972:205) during 1870–1900, the drain was only between .04 and .07 per cent of India's national income. Charlesworth (1982:54–5) points out that even if *all* Home Charges are regarded as unproductive, the drain would still 'barely exceed 0.5 percent of national income'. These findings have led to a certain

downgrading of the drain theory in recent historical writing. For example, because quantitatively the drain appears to have been relatively small, Chaudhuri (1968:43) concludes that the entire controversy was insignificant.

This author disagrees with that verdict. Firstly, expressing the drain as a proportion of the national income is not the *only* valid way of measuring its magnitude. For most drain theorists, the allocation of public expenditure, was a crucial concern. Hence the proportion of the drain to total revenue was quite important. Besides, national income estimates were themselves far from reliable. Secondly, even if the drain constituted only a very small percentage of yearly national income, it continued over a pretty long period, perhaps half a century. Both Naoroji and Dutt emphasised that one important reason for being concerned with the drain was that it was not an erratic or occasional shock but a constant leak. It was described as an ‘unceasing flow’. The cumulative economic effect of a small flow continued over the period might not have been so negligible after all.

Thirdly, Indian national income was very unequally distributed, and even in a ‘normal’ year a great many people lived on the margin of subsistence. If famines occurred, as they often did, both inequality and poverty would increase. In such conditions even a drain that forms a small proportion of aggregate national income could give rise to a significant welfare loss, especially in a famine year.

Finally, the magnitude of the drain is not the only relevant issue. Magnitude, it is true, becomes a crucial concern if the drain theory is interpreted as an explanation of poverty. However, the theory had other aspects as well. Its exponents were much concerned with the equity of fiscal arrangements in British India. As the title of the book by which Naoroji is best remembered testifies, ‘un-British rule’ in India was as much his theme as poverty. By ‘un-British’, he meant unfair, unjust, etc. Arguments about fairness or economic justice often turn on the *direction* of income transfers resulting from certain economic transactions rather than on their magnitude.

My last remark is a historical comment about the nature of the constraints operating on British policy in India during the period when the drain theory was being developed. As mentioned earlier, the drain theory has sometimes been interpreted by British, as well as Indian, historians as an expression of anti-imperialist nationalism (see Morrison 1911; Bipanchandra 1965). Such a view is far too simple. An important aspect of the whole debate is that the Indian élite in the late nineteenth century had a far rosier view of British rule than the British themselves. This comes out clearly if we look at the measures that exponents of the

drain theory proposed in order to reduce the drain. The most important of these was that the civil and military services should be Indianised, the proportion of the European personnel being reduced to a bare minimum. Addressing the first session of the Indian National Congress, Naoroji went so far as to say, 'the sole cause of this extreme poverty and wretchedness of the mass of the people is the inordinate employment of foreign agency in the government of the country and the consequent material loss to, and drain from, the country' (*Speeches:* 115). In later writing, he argued strongly in favour of simultaneous examinations being held in India and England for the civil services and for 'fair' competition for the covenanted and subordinate services. These, he stated, were sufficient for making India prosperous (Naoroji *Speeches:* 196–7).

Measures proposed by other exponents of the drain theory aimed at reducing the Home Charges more directly. The sharing of the charges between England and India could be made more equitable; the rate of interest on Indian public debt could be lowered by obtaining an Imperial guarantee for it; more government stores could be purchased in India itself, and so on. The proposals could be described at most as only mildly nationalist. The drain theorists were not about to storm the ramparts of the British Raj. On the contrary, they sought to make these more secure. Indianisation would not just reduce the drain, it would offer educated Indians the chance of participating, along with their British counterparts, in the day to day business of running the country. This, they thought, could only strengthen the foundations of the Raj.

The British ruling élite in the late nineteenth century had a more realistic understanding of their role in India. Their view of the matter is nicely described by Tomlinson:

> As Disraeli pointed out in 1881, the key to India lay in London. British rule was not maintained for the benefit of the Indian, nor simply for the sake of direct British interest in India; the Raj was there to keep firm the foundation on which much of the structure of formal and informal empire rested. For London the twin imperatives of India policy were that the Indian empire should pay for itself and that Indian resources should be available in the imperial cause…To keep itself solvent the Government had to weight imperial commitments against the needs of its subjects. The heart of the problems of the Raj was the maintenance of this balance…
>
> (Tomlinson 1975:338–9)

The implications for Indian famine policy of the policy of maintaining such a balance have been discussed earlier. The same sort of trade-off can be seen at work in the British attitude to recruiting Indians in civil and military

administration in general. Entrusting more power to 'natives' and by implication their recruitment to the civil services on anything more than a token scale was a risk the British were not prepared to take. As Sir John Stratchey (1888:359–60) acknowledged 'there never was a country and never will be in which the government of foreigners was really popular'. To court such popularity among Indians was not at this time a part of British policy.

As regards the army, as long as memories of the mutiny continued to cloud British attitudes a more liberal policy remained politically infeasible. Nor was there any great concern with increasing efficiency. As Tomlinson has acutely observed, the Indian army was 'a circular commitment':

> Military expenditure was the greatest single burden on Indian revenues, running at around 40 per cent of the Government of India's gross expenditure, yet the primary function of the Indian army was to keep India secure so that this revenue could continue to be collected.
>
> (*ibid.:* 341)

As in the case of expenditure on famine policy, there was no attempt, either conscious or implicit, towards developing a cost-benefit approach.

In retrospect, perhaps the most important contribution of the drain theory is the insight that it offers about the relationship between economic development and the balance of payments. During the last few decades, developing countries in their initial phase of accelerated growth have almost invariably experienced difficulties with their balance of payments. Despite lacking this experience to guide them, exponents of the drain theory could still sense that there was a certain incongruity between India's economic backwardness and her persistently favourable balance of trade. Late nineteenth-century India was a very poor country with a near-zero rate of economic growth. The export surpluses that continued to accrue were not a sign of impending take-off but rather of an investment pattern that retarded growth. The drain theory, at least indirectly, shows some inkling of what was going on; the complacent official view shows hardly any. The basic weakness of the theory was pointed out by Ranade. While there is little doubt that the financial arrangements imposed on India by British rule involved an element of drain, it is unlikely that this was either the root cause of poverty or the binding constraint on economic growth in India. Preoccupation with 'drain' had the effect of narrowing the focus of Indian economic thought and diverting attention from the more pressing concerns to which Ranade wished to draw attention.

7 Ranade and the economics of development

Mahadev Govind Ranade (1842–1901) has been variously described as the father of Indian economics, the greatest Indian economist since Kautilya and the originator of the optimistic school among Indian economists. His work was a formative influence on Indian economic thought during the first half of this century. However, like some other important economic thinkers, he was not primarily an economist. He is remembered more as a social reformer, a leader of the moderate wing of the Indian national movement, a legislator, journalist and judge. He was one of the founders, in 1870, of the Poona Sarvajanik Sabha, which came to play a prominent role in campaigns for social, political and economic reform both in the Bombay region and in India as a whole. In 1878 the Sabha published the first issue of its *Quarterly Journal* which he developed into one of the most influential Indian periodicals of its time. Most of Ranade's writings on economic, social, political and administrative matters were originally published in the pages of this journal. Ranade was an outstanding and influential public figure and is justly regarded as one of the founders of modern India.

Ranade's life, writes Tucker (1972:1) was spent in adapting European institutions to the specific circumstances of Maharashtra. While some of his economic writings, too, seem to bear a regional stamp, his overall vision was that of a modern, self-confident, forward looking and industrialised India. It is from this perspective that his contribution to Indian economic thought can best be understood. This chapter consists of four sections, dealing in successive order with poverty and industrialisation, agrarian policy, railway investment, and economic methodology.

POVERTY AND INDUSTRIALISATION

All of Ranade's economic writings address a single problem: poverty. He did not make any attempt to measure the extent of poverty, but that it was widespread and endemic he regarded as self-evident.

> We need only walk through our streets, and study the most superficial aspects of our economic situation and the fact forces itself upon us that we are a people of little resources. Many millions among us scarcely earn a couple of annas a day. Many millions more are always underfed, and live on the borderland of famine and slow death, into which the failure of a single monsoon precipitates them.
>
> (Ranade EIE: 195)

Both in assuming the existence of mass poverty and in emphasising the close link between poverty and famine Ranade represented the mainstream view of Indian economic writing. However, unlike others, such as Naoroji or Dutt, Ranade regarded poverty as a legacy from the preBritish era. It is, he suggests, 'not of yesterday, and is not the result solely of foreign conquest and competition. It is an old, old inheritance' (*ibid.:* 105). Indeed, the heightened awareness of poverty was itself seen by Ranade as an aspect of the progress that had come about under British rule: 'If we feel it more keenly now, we feel it because we are roused from the sleep of ages, and our eyes have learnt to see, and our ears have learnt to hear' (*ibid.:* 195). Here, as often in Ranade's writing, we hear an individual and distinctive note.

The question of whether poverty in the nineteenth century was more widespread or intense than that which had existed in earlier times, remained for Ranade an open question but not an interesting one. It concerned specialist historians rather than economists:

> The question of our comparative improvement or decline under foreign rule is similarly a question of antiquarian history. The practical question for us all to lay to heart is not the relative, but the absolute poverty and the present helplessness of the country generally.
>
> (*ibid.:* 195–6)

Looking back in anger or despair would not help. The problem was how we could remedy that helplessness, and one had to begin by a diagnosis, by looking at the causes of poverty. The most important cause, according to Ranade, was overdependence of the Indian economy on agriculture. Again, Ranade made no extravagant claims for the past nor did he attempt to ascribe all economic ills to the British conquest. The traditional Indian economy had not represented a state of balanced growth either.

> The co-ordination of industries, which regulates the due proportions of men who plough the soil and raise raw produce, with those who manufacture this produce, and others still, who exchange and distribute

> it, and the interplay of whose three-fold activity makes a nation thrive, was never a very strong factor of our collective social polity.
>
> (*ibid.:* 196)

Like nearly all pre-modern societies India too had been predominantly agricultural. However, the position had worsened.

> There can be no doubt that, whatever may have been our improvement in other respects, we have in recent times become more than ever dependent upon the single resource of agriculture, precarious and contingent as that resource is upon influences we cannot control or count upon with certainty.
>
> (*ibid.:* 196).

This had occurred as a result of increasing economic contact with the outside world. Freedom of exchange and competition from the products of modern manufacturing industries had led to a decline of output and employment in indigenous craft industries. Because the machine-made, imported goods were cheaper than the corresponding products of domestic handicraft, the decline itself was inevitable. Even if the government of India had not helped the process in any way British merchants and manufacturers would eventually have asserted their predominance in the Indian market ('The Economic Results of the Public Works Policy', SJ October 1884).

However, the government's efforts in support of the interests of British producers helped to make the process of disintegration of domestic industry far quicker than need have been the case, and prevented the transition from occurring in a more orderly and gradual fashion. An example of such action that Ranade gives is the sudden and complete removal of customs duties on cotton, silk and woollen manufacturers and on wrought metals, which threw out of employment a very large number of skilled artisans. They were compelled to compete in the labour-market with poorly paid agricultural workers. The outline of the process was an increasing dependence on agriculture.

> Every class of artizans, the spinners, weavers and dyers, the oilsmen, the papermakers, the silk and sugar and metal workers, etc. who are unable to bear against western competition resort to the land, leave the towns and go into the country and are lost in the mass of helpless people who are unable to bear up against scarcity and famine.
>
> (EIE: 29)

But the indirect and long-run effects of the process could be even more damaging. 'The progress of ruralisation in modern India means its rustication, i.e. a loss of power, and intelligence and self-dependence, and is distinctly a retrograde move' (EIE: 30). There were a few developments, for example, the growth of seaports and military and railway stations, which had the opposite effect but they were too weak to counterbalance the economic forces tending towards ruralisation. Industrial development was needed to halt and reverse the process.

In much of his writing, Ranade appears to take it for granted that economic development in India required priority being given to industry and commerce over agriculture. A number of reasons why he held this view can be found scattered among his articles and addresses.

Firstly, Ranade appeals to a version of what has come to be known in the recent literature of development economics as the balanced growth argument. Taking a cue from the German school of historical economics led by Friedrich List he defines economic development as the full and all-round development of the productive powers of society. This requires a proper 'coordination' between different sectors, which alone can assure adequate and sustainable demand for the output of each sector. In the terminology used by List, coordination is required in particular between *'agarstaat'* and *'industriestaat'*, and more generally between rural and urban employment. Given the 'initial conditions' of the Indian economy, a substantial increase in industrial employment and output is therefore a necessary condition for sustained economic growth to occur.

Rather than trying to correct the present imbalance, however, official economic policy in India often tended to make it worse. This was one of Ranade's most frequent complaints aginst the government's economic policy, especially in his earlier writings.

> India was to devote all its energies to raise the raw exports, and canals, railroads and improved communications were to be pushed on at any cost to facilitate the export of raw articles, and the import of English manufacturers. India's own industrial needs were of comaparatively no consequence.
>
> ('The Economic Results of the Public Works Policy', SJ October 1884, quoted in *Indian Journal of Economics* 13:651)

And he makes the point even more strongly in the following passage:

> This Dependency has come to be regarded as a plantation, growing raw produce to be shipped by British agents in British ships, to be worked

> into fabrics by British skill and capital, and to be re-exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere.
>
> (EIE: 106)

A second argument which is related to, though logically disinct from, the first is based on the concept of 'stages of growth'. Again, Ranade borrows from List who describes a sequence of historical stages through which an economy typically must pass: hunting, agriculture, agriculture plus manufacture plus commerce. Ranade adapted the scheme to Indian conditions by distinguishing between an existing stage of agriculture plus handicraft and one of agriculture plus manufacture plus commerce which he held out as the next stage to which India should aspire to proceed. A taxonomy of this kind can at best be no more than suggestive but it provided Ranade with a useful handle to press for industrialisation. It explains too why he tended to think of industrial growth invariably in an open economy context.

Thirdly, manufacturing industry allowed more scope than most other sectors for what Ranade called 'art manipulation', in other words the application of modern technology to the production process. This helps explain why a society's aggregate output per head is found to be directly related to the proportion of its labour force engaged in manufacturing, a point duly noted by Richard Jones, one of Ranade's favourites among the English economists. A closely related argument rests on the concept of development as learning. Manufacturing activity was a more effective source of learning than traditional agricultural pursuits and, according to Ranade, perhaps more effective than formal education itself.

> When the country was (thus) enabled to obtain a new start and factories and mills on a small or large scale were set up all over the land, the present paralysis would give way to a play of energies which would far more effectively than schools and colleges give a new birth to the activities of the nation.
>
> (EIE: 104)

It was Ranade's understanding of economic development as a historical process that inspired his vision of India's industrialisation. 'There can be no doubt that the permanent salvation of the country depends upon the growth of Indian manufactures and commerce and that all other remedies can only be temporary palliatives' (EIE: 130).

The process of economic development consists generally in a switch away from primary to secondary production and more generally from commodities where value added in production was low to those where it was significantly high. It also involved active participation in the world economy. Other economists of his time, or ours, who have proposed industrialisation as a means of achieving economic growth in developing countries have often concentrated their attention on the domestic market and favoured import substitution as the basic underlying strategy.

Some have even looked on autarky as a necessary condition for developing countries to achieve autonomous development. Ranade on the other hand had an open economy framework in mind and looked to export-oriented growth.

> What we have to do…is to learn by organised co-operation to compete with the foreigner, and take in as much raw produce from abroad as we need, and work it up here, and to send in place of our exports of raw produce, the same quantities in less bulky but more valuable forms, after they have undergone the operation of art manipulation, and afforded occupation to our industrial classes.
>
> (EIE: 128)

While much of the raw materials would be domestically supplied, the import of raw materials from abroad to be used in the production of manufactured goods in India was also envisaged. In the early stages of industrialisation this would help to ensure that the quality of exported manufactures was maintained at a high level. ‘We have to improve our raw materials, or import them when our soil is unsuited to their production’ (EIE: 128).

The same reasoning led Ranade to welcome imports of skill and capital equipment from abroad. We should, he said ‘Import freely foreign skill and machinery, till we learn our lessons properly and need no help’ (EIE: 128). This last statement incurred the wrath of nationalists such as Tilak, whose journal *Kesari* published an article on the evils of foreign capital under the title ‘Mahadev in singing the praises of foreign capital is a traitor to his country’. Ranade was no traitor. He was simply a development economist who saw clearly that difficulties in achieving industrial growth in such a country as India could arise simply from the long practice of agriculture itself. ‘We have rusticated too long; we have now to turn our apt hands to new work, and bend our muscles to sturdier and honester labour’ (*ibid.:* 128). In that task both foreign trade and foreign capital could be helpful.

The task of industrialising India would not be easy. The difficulties in the way, political and social as well as economic, were formidable. Among the economic obstacles to industrialisation it was a deficiency of investment

finance which Ranade emphasised the most. 'Just as the land in India thirsts for water, so the industry of the country is parched up for want of Capital. Capital desirous of investment and content with low interest is a national want' (EIE: 99). The deficiency in supply of investment funds was partly due to low savings. The Indian population as a whole had a low average income and also a low propensity to save out of that income. A considerable proportion of gross savings was taken up by taxation, especially land revenue, and an even larger proportion was used to hoard precious metals. In an address to the Indian Industrial Conference in 1890, Ranade presented estimates of the magnitude of hoarding.

> Every year we import in treasure bullion, gold and silver of the value of twelve crores worth, i.e. three crores of gold and nine crores of silver. The whole of the gold disappears, and is absorbed by the soil and of the silver seven crores are sent by us to the Mint every year, and the rest is absorbed like gold. Since 1834 this absorbing process has secured the virtual destruction of nearly four hundred and fifty crores of wealth which might have been turned to better account.
>
> (EIE: 201)

The saving of four hundred and fifty crores in fifty years by twenty-five crores of people was not, Ranade observed, a sign of great prosperity but we have made our position worse by buying it or using it unproductively. The shortage of aggregate savings was aggravated by deficiencies in institutional arrangements for industrial finance. The amount of savings available was almost entirely in the hands of men in a few large 'Presidency' towns who had few connections with the rest of the country. The habit of forming joint stock organisation was not developed and available savings were invested in Government Stocks or in the Presidency, Exchange and Post Office Savings Banks, rather than industry. In a way, therefore, India had more capital than it could handle.

> There is capital ready to hand awaiting secure investment. There is the broad ready expanse of industry, which is thirsting for capital and offering the most secure investment for its fruitful employment. What is wanting is the necessary skill and patience which will adjust the capacity of the one to the wants of the other, and make both work in a spirit of harmony and cooperation.
>
> (EIE: 45)

Apart from inappropriate government policies and deficiencies of industrial finance, Ranade pointed to the lack of an entrepreneurial

tradition as a constraint on development. He believed that contemporary Indians by and large had insufficient enterprise and ambition and tended, for religious reasons, to decry the pursuit of wealth as an aim of life.

In these circumstances, government had an important role to play in encouraging the process of industrialisation. According to the doctrine of *laissez-faire,* the government should not intervene in the economy. The only exceptions permitted were those required for the purpose of carrying out the basic duties of government; protecting citizens against external attack, and preserving law and order. Intervention to enforce contracts was right and proper, not so intervention in aid of private industry. Ranade did not reject that principle outright. In certain circumstances, he thought, it might actually help industry to grow much more than active intervention would have done. This was not, however, the case in India. Because of historical circumstances, much of Indian industry was in a state of decline or even collapse. It was essential, stated Ranade, for government to take steps that could help private domestic industrial enterprise to grow.

In his inaugural address at the first Industrial Conference at Poona in 1890 Ranade set out what these steps should be:

> While we put forth our energies in these directions, we can well count upon the assistance of the State in regulating our Co-operative efforts by helping us to form Deposit and Finance Banks, and facilitating recoveries of advances made by them, by encouraging New Industries with Guarantees or Subsidies, or loans at low interest, by pioneering the way to new Enterprises, and by affording facilities for Emigration and Immigration, and establishing Technical Institutes and buying more largely the Stores they require here and, in many cases, by producing their own Stores.
>
> (EIE: 207)

Here, as in other passages dealing with the role of the state, Ranade's preoccupation with the problem of credit is evident. It is the state's role in facilitating the flow of financial resources into industry that is most emphasised. This is to be done in a number of ways. As Ranade saw it, to a large extent the problem was one of encouraging existing investible funds to flow in the appropriate direction. The Post Office and Savings Banks deposits, for example, were already there. 'All the government has to do' is to organise committees of Indian capitalists at the district or city level and to empower them to receive deposits at fixed rates and lend them at slightly higher rates on the security of land or house property. The excess would provide for a gradual amortisation of the debt within a definite time, together with insurance charges and working expenses (EIE: 68).

Another useful device would be for government to guarantee a certain minimum level of interest on loans advanced for investment in industry. These could come from either domestic or foreign investors. In the latter case, the aggregate supply of investment funds for industry would increase. Ranade was fond of pointing out that this did not represent a new departure for the government which had been promoting foreign investment in railways under a guarantee system, to be described later in this chapter.

In most cases direct expenditure by the state would not be necessary. 'The State need not expend its funds. The funds will be forthcoming to any amount if it only promises to organise the Agency and set it at work' (EIE: 68). In a few instances, where domestic production enjoyed sufficient natural advantage, Ranade approved of more direct forms of encouragement by government which, however, still fell short of direct state control. This could take the form of pioneering new industries taking the 'Java system' as a model: 'The Dutch Netherlands Government have shown the way in Java, and with less selfish motives the same method might well be tried in regard at least, to the industries allied with agriculture, sugar-refining, oil-pressing, tobacco-curing, silk-rearing, etc' (EIE: 31).

The system was one of encouraging the planting of remunerative crops and manufacturing them for the European market, by private agency, which was also responsible for bearing risks. However, the government, apart from advancing loans at a low interest, also helped in the choice of location and in selecting the form of investment (EIE: 95–6). Something on these lines could also be tried in other selected fields, but 'not at State expense departmentally' (EIE: 95). In yet other cases, the government could help domestic industry simply by extending its own custom to the products of domestic industry of a satisfactory standard of quality, instead of confining its purchase of required stores only to foreign sources, as was standard practice at the time.

In sum, by loan advances, guarantees, guidance and custom the government under the supervision of official experts would help and guide private efforts especially in the development of those industries in which India possessed special advantages. Among these, apart from the agricultural industries already mentioned, were iron, coal, paper, glass and beer (EIE: 102–3). Such help was not intended to be extended permanently but only in the transitional period, 'till private enterprise could support itself' (EIE: 95–6).

Ranade was one of the few economists in modern India to recommend the state's assistance with labour migration as a means of economic development. Migration, he thought, would help relieve the

pressure of population on the land. During the last two decades of the nineteenth century, when most of Ranade's economic essays were written, while population in India grew fairly slowly mortality rates were high and the expectancy of life at birth declined. Ranade believed that given the dependence on the land for livelihood even a low rate of population growth could have very adverse consequences.

> The growth of population does not represent to the same extent growth in material comforts, and this has led to the absorption of waste lands till, in some parts of the country, the last margin has been reached and millions die or starve when a single harvest fails.
>
> (EIE: 199)

While the growth of manufacturing industries would help diversify the occupational structure and reduce the degree of dependence on agriculture, this would take time. In the shorter run Ranade suggested policies to encourage internal and foreign migration of labour. Both had in fact been occurring for a long time past. Internally, people migrated from poor and thickly populated agricultural tracts to more sparsely populated areas. This helped to improve the regional distribution of population from an economic point of view. However, internal migration could not be compared 'in its immediate and remote bearings on national prosperity' with emigration abroad. Again, quite a large number of Indians did emigrate to the British, French, and Dutch overseas colonies. This, thought Ranade, augured well for the future of India and should be encouraged by every means, both by the government of India and by private organisations such as the Western India Association. Here Ranade referred to the recent success of Wakefield in his schemes of colonisation by British settlers in Australia and New Zealand and also to schemes of colonisation by Kautilya and practised by ancient rulers in India. The latter had not only encouraged entire village communities to move *en masse* but also helped them financially to settle in their new homes. Guilds of traders and artisans from distant places had, for example, been induced to settle in new towns by free gifts of land and houses. Such schemes had operated *within* India but something along these lines could also be done, Ranade believed, to encourage Indians to emigrate overseas. Among the countries he mentions as having a high demand for labour and hence offering good prospects for Indian emigration are Mauritius, Natal, Trinidad, Jamaica, British Guiana, Burma and Australia.

Apart from its direct effect in reducing the pressure of population on the land, emigration abroad would also bring some indirect benefits to the Indian economy. One such would be to increase the level of

aspirations among the Indian population at large. Emigration overseas, or even the prospect of it, could help break up ‘the old thraldom of prejudice and easy satisfaction and patient resignation’ and give rise to ‘new aspirations and hopes’ (EIE: 30). Another indirect effect would be to stimulate the demand for Indian goods abroad. Because of the influence of cultural patterns on consumption Indians settled abroad would provide a good market, among others, to Bombay mill-owners for cloth and to Indian shippers for transportation (especially when travelling to an African destination). For this purpose it was desirable that emigrants should come not simply from poor and unskilled classes but rather from relatively prosperous middle-class and professional people. Doctors, lawyers, artisans, even priests of different sects, these were the kind of people Ranade had in mind. As he saw it, such people would also find it relatively easy to find profitable employment overseas, especially in African countries.

In the list of measures which Ranade wanted government to adopt in order to help the growth of domestic industry, there is a notable omission: protective tariffs. The omission is a little surprising, since France, Germany and the USA had used tariffs to help their manufacturing industries to develop in the face of foreign competition and these were the countries Ranade usually held up as models for India to follow.

One possible explanation could be that Ranade had been converted by classical political economy to a faith in free trade. And indeed there is evidence in his writing that he had considerable respect for free trade as a general principle. However, the free trade argument in his view did not contradict the case for protection being extended to infant industries. Adam Smith, he writes, was really arguing for fair trade rather than free trade while J.S.Mill accepted protection for new ‘infant’ industries as being within the framework of the classical political economy tradition (EIE: 27). Ranade even quotes Mill as approving of exceptions to free trade ‘where time is required to ascertain whether new industries are or are not adapted to the natural resources of new countries (EIE: 27). India, suggests Ranade, may fairly demand such a ‘breathing time’.

Indeed, the measures described earlier, which Ranade wished government to undertake by way of encouraging industrial growth, were all applications of this argument. An infant industry argument on the same lines for a protective tariff on, say, iron or sugar would therefore have been logically quite consistent with Ranade’s position on matters of policy. His silence may rather have been due simply to a belief that in the circumstances prevailing at the time a proposal for a protective

tariff for Indian industry had little chance of success. Whatever the exceptions admitted by Mill, economic opinion in British ruling circles was almost unanimous in its adherence to free trade. Because of this, and because India did not have a government of her own, approval for tariffs, or subsidies, for Indian industry was hardly feasible.

> It is not open to us to adopt certain plans of operation which, however much they might be condemned on abstract grounds, have been followed with practical success in many of the most enlightened Countries of Europe and America. We cannot, as with the Government of these countries, rely upon Differential Tariffs to protect Home Industries during their experimental trial. We cannot expect the Government here to do what France or Germany does for their Shipping Trade, and their Sugar Industry, and ask Government Bounties and subsidies to be paid out of general Taxes.
>
> (EIE: 202)

Ranade, suggests Datta (IJE 22:267) would indeed have come out in favour of protective tariffs 'if he had not realised that to ask for a tariff in 1890 would be almost equivalent to asking the British to leave India'. Ranade, it is true, frequently proposed economic policies which were against the official line, but as a realist he liked to have a 'sporting chance'. It was 'useless to divert our energies in fruitless discussion and seek victory over Free Trade' (EIE: 202).

While government action was necessary to give the process of industrial growth in India an initial push, such action still remained peripheral to the process itself. No amount of government aid to industry could foster growth unless the people learnt to help themselves. 'After all Government help can do but little. We have to resolve to work earnestly and perseveringly with a purpose and organisation which will conquer all obstacles' (EIE: 204).

And similarly, 'State help is after all a subordinate factor in the problem. Our own exertion and our own resolutions must cover the difficulties, which are chiefly of our own creation' (EIE: 207).

Thus, for Ranade, organised private effort always remained the basic means to industrial growth. In the circumstances in which India was placed at the time, state help of certain kinds was essential if domestic private industry was to thrive, but such help could not substitute for private effort. As to running an industrial enterprise as just another government department, Ranade did not regard it as an inefficient solution, he did not regard it as a solution at all: industries simply could not be run like that.

In sum, Ranade was neither a radical nor an enthusiast: and unlike some latter-day development economists he did not put his trust in any *one* magic solution such as the socialist path, *laissez-faire,* technology transfer, big push, or foreign aid. He had a clear-headed understanding of the difficulties hindering the industrial development of India. As he saw it they were due in part to the rigid and doctrinaire attitudes of a foreign government which lacked any real commitment towards India's economic advance, but they were also the legacy of a stagnant past.

In a country with an ancient civilisation based on millennia of agriculture the diversity and change of occupation that industrialisation would mean was a very arduous undertaking.

> It presupposes a change of habits, it postulates the previous growth of culture and a spirit of enterprise, an alertness of mind, an elasticity of temper, a readiness to meet and conquer opposition, a facility of organisation, social ambition and aspiration, a mobile and restless condition of Capital and Labour all which qualities are the slow growth of centuries of freedom and progress.
>
> (EIE: 141)

Ranade's historical approach to the study of economic growth precluded his ever supposing that such things could be acquired overnight. He was saying that they *could* eventually be acquired and that it was time to start. While Ranade's writing concentrates on the difficulties in the way, he had no doubt about long-run success provided that certain necessary steps were taken. This optimism was inspired by a conviction that the natural advantages which India enjoyed were no less remarkable than the difficulties she faced. 'Natural aptitudes, undeveloped but unlimited resources, peace and order, the whole world open to us, our marvellous situation as the emporium of Asia, these priceless advantages will secure, if we endeavour to deserve it by striving for it' (EIE: 128–9).

Towards the end of his life, Ranade came to believe that even in the shorter run, the prospects for industrialisation were reasonably bright. Here he parted company with fellow economists such as Dutt or Naoroji who took a more pessimistic view. Writing around the turn of the century, Ranade observed that at least the tendency towards increasing dependence on agricultural pursuits appeared to be over. During the 'last twenty years there has been a clearly distinguishable departure from the, till then, unimpeded process of ruralising a vast continent' (quoted in Coyajee IJE 22:313). It appeared to him that a turning of the tide in the direction of industrial progress had already begun. At the time, Ranade did not have a great deal of evidence to

support this judgment but he could see some hopeful signs: jute and paper mills in Bengal, cotton mills in Bombay, Nagpur and Ahmedabad, and 'pioneer attempts' at developing an iron industry in various parts of the country. Not only were natural resources in abundant supply, demand was increasing every day 'in volume and urgency'. Dr Watts' Report provided technical grounds for being hopeful about the availability of raw materials for India's industrial growth. Ranade's natural optimism supplied the rest. The real danger, as he saw it, lay in a failure of nerve, in a tendency 'to turn back from our present opportunities to a past which cannot be recalled' (EIE: 14).

Ranade, especially in his later writings, often warned his countrymen against this danger.

AGRARIAN POLICY

Ranade, as we have seen, associated the predominance of agriculture with stagnation. To his mind such a predominance spelt 'rustication', a loss of power, intelligence and self-dependence. The way to economic growth lay in an all-round and balanced development of productive powers. For an underdeveloped economy such as India, this implied the growth of industry and trade, especially of manufacturing industry and foreign trade. Agricultural growth remained extremely important not only because an overwhelming proportion of the population derived their livelihood from it, but also because many of the industries in which India had a natural advantage were based on agriculture. The future however lay in industrialisation. It is in this perspective that Ranade's writings on agrarian policy can best be understood.

Traditionally, questions of agrarian policy in India have been seen as closely related to the appropriate method of assessing land-revenue. Ranade wrote a number of papers on this topic and proposed certain farreaching reforms to the existing system. It is on his proposals for reform that our discussion in this section will concentrate. Here, as on issues of industrialisation, his emphasis was on how sustained increases in production could best be achieved. The existing system for the assessment of land revenues in India was, in his view, quite inappropriate for this purpose, for it had the effect of discouraging productive investment on the land.

> All improvements in husbandry suggested by science and experience pre-suppose a great expenditure of capital to be invested in land. The magic of property can alone induce people to incur such expenditure. Neither private sowcars nor joint-stock banks will venture to advance

> capital to sink wells or to use manures, and throw dams across streams, unless the ryots to whom these advances are to be made possess full proprietary rights over their lands. If the landbanks have succeeded in other countries so well, most of this success must be undoubtedly laid to the credit of the fact that the peasants in those countries are not tenants of the State, but own the land they cultivate in absolute right.
>
> (‘Land Law Reforms and Agricultural Banks’ SJ October 1881, quoted in Karwal IJE 14:65–6)

Development of agriculture on capitalist lines alone could unleash the productive powers of land. That was a long-run process but legislation on land revenue could help in initiating it. For this purpose, he stated, a permanent *ryotwari* settlement fixed in grain to be commuted into money values every twenty or thirty years ‘can alone furnish a solution of the agricultural problem’ (EIE: 352). Ranade proposed that the revenue on land should be fixed permanently as a proportion of the gross staple produce, the proportion being based on the principle of dividing the net profits in kind half and half between the government and the private holder. Since the government required cash rather than grain for its own transactions, these ‘kind’ payments would be commuted into money values in accordance with the prevailing trend in prices, some allowance being made for increased costs of production. All that the government would have to do was to maintain accurate statistics of changes in prices. Ranade claimed three substantial advantages for his proposed scheme. In the first instance, it would reduce friction between the *sowcar* (moneylender) and the *ryot* (peasant) and create incentives for all concerned to undertake productive investment in land.

Secondly, under the permanent settlement the land would pass into the hands of those fit to put it to right and proper use. The existing policy was hopelessly struggling ‘to keep a poverty-stricken peasantry in possession of the soil and divorce the natural union of capital and land’ (‘Land Law Reforms and Agricultural Banks’, SJ October 1881). When this policy yielded place to the new dispensation, the indifferent and lazy *ryot* would make way for better people who would take his place to the advantage of the general interest. In course of time the prudent and thrifty classes would succeed to the ownership of land and a class of landlords would spring up all over the country, in whose interest it would be to make the most of the resources of the soil and of the great public works constructed by the government. Nor would small peasant farming vanish altogether, creating a horrendous problem of landlessness. ‘A complete divorce from the land of those who cultivate it is a national evil and no less an evil is it to find one dead level of

small farmers all over the land' (EIE: 309). Both evils could be avoided by creating a system with a relatively small number of large landed estates on the Prussian model, together with a mass of productive peasant farmers.

Thirdly, under the new order of things the peasants would have no reason to complain, as they had under existing circumstances, about the burden of the land tax when prices were low, for if prices fell, the assessment in money would fall also and thus not press very hard on the *ryots* ('Land Law Reforms and Agricultural Banks', SJ October 1881).

Ranade examines two objections that might be raised against his proposal. The first is the possibility of a scarcity of revenue by virtue of loss of 'unearned increment'. He rejects this objection because if, on account of general prosperity, there was a rise in prices, the money commutation of the grain assessment would also rise in the same proportion, thus compensating the revenue for increased demand of expenditure. The government would, moreover, be 'free to levy special rates for facilities of irrigation actually supplied by it at public expense'. What is more, under the present system there was little incentive for agricultural improvement and hence little scope for increases in revenue. With the extension of the permanent settlement, the increment, earned or unearned, would be so great that the direct and indirect taxes would yield a sure and certain increased income from all sources, which would make up more than the deficiency arising from the loss of this unearned increment.

The other objection is that the Indian peasant is so thriftless, unenterprising and ignorant that no government measures could ever better his condition. Ranade's answer was based on 'historical' reasoning. That Ranade in general preferred a historical-inductive to a logical-deductive approach to economics is brought out elsewhere in this chapter. The limitations of the latter approach, he thought, were particularly important when dealing with problems that involved dynamic change. A study of historical experience could be more relevant here. Ranade had studied several European societies for the purpose of gaining insight into the process of economic development. In the early 1880s he frequently cited England, France and Germany as examples of progress, and also used these examples to bring out the economic virtues of an independent peasantry. These virtues—thrift, exertion, technical innovation—could however come into play only after impediments arising from the prevailing institutional structure had been removed. To the charge that the Indian peasant was lacking in the virtues mentioned, Ranade's reply was that the same had been true elsewhere. The French peasant, for example

> was not always the abstemious and prudent citizen that he now is; there was a time when Arthur Young mourned over the condition of the Agricultural classes of France. The magic of property and of free institutions has worked all this wonderful change.
>
> (EIE: 275)

The great principle underlying all reform was 'to remove whatever had hitherto hindered the individual from obtaining that degree of well-being which he was capable of reaching by exertions, according to the best of his ability' (EIE: 284). If the principle was applied to India the same result would follow. Two other aspects of Ranade's approach to agrarian policy merit attention. One is related to the question whether land revenue was a rent or a tax, a hardy perennial in Indian economic thought. British officialdom was inclined to the view that in India the state was, and had always been, the 'universal landlord' and hence that its revenue from land was in the nature of a rent paid by the tenant.

Ranade held that this view was simply wrong and consistently argued that land-revenue was a tax. The state had no proprietary rights in either cultivated or waste lands. Its interest was confined to a claim for a share of the produce, which was not of the nature of a monopoly of differential rent. This view, states Ranade, had the support of contemporary opinion such as that of the Court of Directors, the Secretary of State and judicial decisions without number. He could have cited too the authority of J.S.Mill, who, in a Return on Indian Tenures to the House of Commons in 1859, had stated that land throughout India was generally regarded as private property, subject to the payment of revenue. This view was also, according to Ranade, in accordance with the judgment of ancient lawgivers in India. Some British writers, like James Mill, had indeed accepted the contrary view, and regarded the state as an all embracing landlord. This Ranade attributed to their 'utilitarian aggressiveness', which, as he saw it, was not unrelated to the despotic element inherent in imperial regimes. Such writers had only too readily accepted the claims of Muslim emperors that the state owned the land, leaving tenants only temporary and tenuous rights to their holdings. The British should give up the authoritarian practice of the Muslim rulers and should go back to the more moderate claims of the government characteristic of the best in Hindu tradition.

> The Government must retrace its steps, forget its Mohamedan antecedents of absolutism, and return to the old Hindu traditions, where the King's power was restrained in all directions by the rights of the people, among whom the king was more of a father and a manager than

> a conqueror or a sovereign lord, and cultivated land belonged in absolute right to private owners who paid as tax a fixed share of the produce to the king like any of his other subjects for the expenses of protection.
>
> (quoted in Tucker 1972:116)

Whether land belonged to private individuals or the state could make a difference to the rate at which land-revenue is assessed. In a system where land is recognised as being privately owned the competition of landlords among themselves helps prevent that level from being too high. But in British India, where land was held to be the monopoly of the state, no such check could operate; and its absence had led to enhancement of land-revenue assessment all over the country, to an extent of which the government itself was now ashamed ('Land Law Reforms and Agricultural Banks', SJ October 1881).

The re-establishment of the private ownership of land was absolutely necessary for the achievement of agricultural prosperity. The state monopoly of land and its right to increase the assessment at its own discretion were the two most pre-eminent obstacles in the way of the growth of material prosperity ('Land Law Reforms and Agricultural Banks', SJ October 1881). Ranade's scheme was designed to remove both obstacles together.

A second question which was closely related to Ranade's proposed solution to the agricultural problem concerned the viability of small farming. He was concerned not so much with the *general* question of whether agriculture enjoyed economies of scale, as with the more restricted one of whether, in the conditions actually prevailing in India, small farming was remunerative. That it was *not* was suggested by the facts that a large proportion of the peasants, 50–60 per cent according to Ranade, were dependent on *sowcars* for both production and consumption loans and that they usually found it impossible to repay their debts from 'the net gain of agricultural industry' (see 'Land Law Reforms and Agricultural Banks', SJ October 1881, and *Essays:* 44). While the *sowcars* often charged exorbitant rates of interest they bore risks and provided an essential service. The *sowcar* was as necessary to the *ryot* 'as the seed he sows or the rain from the heavens that irrigates his fields'. Without the *sowcar,* agricultural industry would come to a halt and he was just as indispensable for the business of government, for a large proportion of the land revenue, though directly paid by the *ryots,* was actually advanced by *sowcars* ('The Deccan Agriculturists' Bill', SJ October 1879). The reforms that Ranade was proposing were designed to end the helplessness of the *ryots* and to create a situation

where other, more organised and productive, forms of agricultural finance had a chance to develop. The state had an essential role to play in the process of transition.

> Let the State interfere not merely with a minimum piecemeal dose of judicial reform, but by the whole dispensation of a large administrative relief. If it subsidizes or guarantees private banks against risk during the first experimental years, and enables them to rid the peasantry of their ancestral debts, and if at the same time it allows the land revenue to be redeemed or permanently settled at a moderate figure once for all, it will provide an ample fund for agricultural relief improvement without the necessity of borrowing a single rupee of fresh loans.
>
> (EIE: 275–6)

The *ryot* had to be emancipated and inspired with a sense that the land was his own, just as much as his home or clothes. The 'magic of property' would do the rest.

Ranade's solution to the *ryots'* problems was not the only one proposed. A large body of opinion, both in British ruling circles and among Indian nationalists, was inclined to the view that the *ryot* could not survive without much more extensive, and continuing, help from government than Ranade envisaged. Legislation protecting the peasants against exploitation by *sowcars* was the answer. A number of such measures had in fact been enacted, especially following the Deccan riots of the early 1870s. With one of the most important of these measures, the Deccan Agriculturists' Relief Act of 1879, Ranade himself was closely associated.

In its immediate objective, that of relieving the *ryots'* financial position, the Act, by all accounts, achieved considerable success. In a review of its working, Ranade wrote that the act had helped the ryots to 'a growth in the standard of life, more variety of pursuits, a more assured sense of property in land, greater self-control, greater intelligence to cope with the Savkars, and increased facilities to borrow money when needed' (quoted in Tucker *op. cit.:* 106). On the other hand, the total amount of credit had declined, since creditors were less willing to lend on the security of personal property, but against critics such as Sir Raymond West he argued that this was the aftermath of famine, and represented a necessary transition to a more secure system of rural credit. It was such a secure and permanently sustainable system that Ranade's own proposals were designed to achieve. Relief measures, backed by judicial reform, could only provide a temporary palliative. And even the best of them had drawbacks. The Stamp and Court Fees

Acts, for example, helped to organise the judicial administration of debt relief measures on a formal basis but they also made debts more costly, for a renewal not only involved payments for stamps, court fees, lawyers' fees, etc, but increased the principal itself by the amount of interest accrued on the law costs ('The Deccan Agriculturalists' Bill', SJ October 1879). To the existing uncertainties of nature which affected decision-making in agriculture they added a new type of uncertainty. 'The recuperative powers of nature and art are limited and cannot stand the dead weight of prohibitive rates of interest made necessary by disorganised credit, and the uncertainties and delays and expenses of civil proceedings' (EIE: 69).

Government interference in the conditions determining land tenure, either through legislation or the courts, could provide relief to the *ryots* but could not provide a long-run solution to the agricultural problem. A long-run solution had to accept the realities of the situation and be economically viable. Inequalities between individuals and groups in respect of wealth and income were largely the result of differences in savings rates, education, intelligence, skills and foresight (EIE: 351). Such differences could not be eliminated by social action, which should instead attempt to increase the general or average level of attainment. Perfect equality was not feasible, nor perhaps was it desirable, for 'dead mediocrity' was the likely outcome. There was a place for the rural élite, the men of wealth and enlightenment who would make 'high farming' productive and provide leadership in agricultural innovation. Others would follow. This was the rationale of the two-tier system of farming that Ranade proposed.

To conclude, Ranade's approach to economic policy was guided by an over-riding objective: the development of productive capacity. This applied to agriculture as much as to industry. In both, government had a vital role to play, but its role was to initiate, encourage and allow, rather than direct, take over or control. And the encouragement should be given to domestic producers, who had difficulty in gaining access to capital and were deficient in entrepreneurial skills, rather than to foreigners who did not suffer any such lack but had political clout with the government of India. The government, Ranade pointed out, had taken active steps to encourage the cultivation of cinchola, tea, coffee, tobacco and seri-culture. Its practice was to start the enterprise on its own responsibility and when success was assured, to hand it over to 'foreign adventurers'. The state had also sold wastelands outright at nominal prices and created freehold estates in favour of the European planter class 'while steadily refusing to grant the same boon to the native population'.

This, stated Ranade, amounted to a bounty to foreign investors who had neither shared in the cost of land development nor borne the risks involved. It simply created a foreign monopoly in a national field of investment 'The Economic Results of the Public Works Policy', SJ October 1884). The demands on government that Ranade was making on behalf of the Indian *ryots* were far less onerous.

While Ranade's proposals for industrial development were enthusiastically received by Indian economists, his plea for capitalist development of agriculture gained little support. Even Ranade's followers tended to disagree, among them G.V.Joshi, who favoured small peasant farming which was to be maintained by vigorous tenancy legislation, cheap credit, and a low land tax. Such a policy required just the kind of continuing, long-run, legal and financial government intervention in agricultural activity which Ranade had criticised.

Although Ranade's views were not supported by government, either, and even the government of Bombay did not adopt his land policy, they were not entirely without effect. Beginning from 1884, for example, the Bombay government did take some steps to reform the laws governing land-revenue assessment. The line along which it proceeded was to introduce a large element of permanency. The classifications of soil that had been evolved were accepted as fixed; no enhancement of tax was to be made on account of improvements effected by the holder; changes of assessment were to be made only on consideration of such things as a change in the general level of prices, benefit accruing from the building of railways and similar public works; and limits were imposed on the amount of reimbursement at any one time.

RAILWAY INVESTMENT

During the last quarter of the nineteenth century railway investment in India was a controversial topic. Should there be further extensions to the existing railway network or should public funds be diverted instead to other items such as education or irrigation works? This was the focus of the controversy, which continued well into the present century. Throughout, British trading interests extended considerable pressure on the Secretary of State for India to continue spending substantial sums for railway development. Indian opinion on the other hand wanted a temporary halt to public investment in railways and the meagre sums allocated to irrigation, education and 'welfare' items to be increased. Gokhale, Ranade's pupil and protégé, whose views on various economic topics will be considered in a later section, summed up the Indian view in a rhetorical question: 'Are railways all? Is education nothing? Is irrigation nothing?'

To understand the lack of enthusiasm for railways that is typical of Indian economists one must go back to the early history of railway development. The basic impetus to railway construction in India had come from the needs of the Lancashire mills for good, clean Indian cotton. The carrying of cotton by cart over long distances led to dirt getting mixed up with it. The problem could only be solved by railway transport. The other main consideration was military strategy. Railways were necessary to ensure quick, reliable movement of troops and stores. They were an investment in Empire. It was the coming together of these two distinct strands that started off railway construction in India, from around 1850 onwards. The construction of railway lines was carried out entirely by private railway companies started by English merchants in the 1840s. They were under contract to the authorities in India, represented initially by the East India Company and later by the government of India. These early contracts had a number of somewhat unusual features, the two most important being: firstly, the government of India agreed to make land for railway construction available to the railway companies, on a ninety-nine-year lease, free of cost. Secondly, the companies were given guaranteed interest on the capital they invested, at a rate ranging between 4.5 and 5 per cent per annum, as well as a guarantee against exchange losses, one rupee being exchangeable at Is.10d. Railway development under these contracts is known in Indian economic history as the Old Guarantee System (1844–69). As elementary economic theory would lead us to expect, it encouraged over-capitalisation and high construction costs per mile, which turned out to be far higher than in England, Canada or Australia. The assurance given to the companies that operating losses, if any, would be paid by the government of India out of public revenue, did little to improve their incentive to economise on operating costs either. The system was scrapped in 1869 and during the next decade railway construction was controlled by the state and financed by the state largely out of loans. However, towards the end of the decade the fall in the exchange value of the rupee threatened the budgetary position of the government, which had a heavy burden of sterling commitments to meet (see Chapter 6). This was compounded by the costs of providing relief to victims of a number of famines which occurred during 1874–9. The government found it increasingly difficult to appropriate revenue surpluses for railway development and from the early 1880s once again entered into financial partnership with private British railway companies. This time, however, the railway lines remained the property of government while the companies, which were responsible for operating the railways, were guaranteed a certain rate of interest, usually 3.5 per cent, on the amount of their capital contribution and paid a 40 per cent

share of net profits. The principle of compensation for variations in rupee-sterling ratio was not abolished, but modified somewhat, with the railway companies bearing a part of the exchange risks involved. This system, known as the New Guarantee System, was less inefficient and, for the Indian tax payer, less onerous than the old system had been, though the net earnings of railway companies exceeded the guaranteed interest for the first time only in the closing year of the century (1899–1900).

It is from this context that Ranade's views on the desirability or otherwise of public investment in railways derive their main interest. Government and its spokesmen emphasised the enormous economic and social benefits that such investment was bringing about. Indian opinion was more sceptical. Ranade tried to provide a reasoned assessment of both benefits and costs.

Prima facie, he said, railways are a good thing. They provide a cheap form of passenger transport, facilitate internal and external trade, and may even help promote national solidarity. When, however, as was the case in India 'their extension is made the *ultima thule* of State action on its economic side' ('Public Works in India', SJ April 1881, quoted in Karwal IJE 13:652) a closer look at feasible alternative forms of investment was appropriate. There were several such alternatives to be considered, depending on the context. Part of the government's case for extension of railways was that by facilitating the quick transport of food grains to drought affected areas it would provide protection against famine. Indian writers on the other hand tended to argue that for this purpose irrigation canals were a more effective form of public works than railways. On this issue, Ranade sided with the government, mainly on the ground that the irrigation works then being considered for protection against famine were mostly of a non-perennial type.

> In years of drought and scanty rainfall, the water supply of irrigation works, with the exception of such of them as are supported by the perennial streams of the Himalayas or in the Madras Deltas, generally fails, and the works do not in consequence afford the anticipated relief in times of scarcity.
>
> ('Public Works in India', SJ April 1881, quoted in Karwal IJE 13:655)

Railways, on the other hand, are equally serviceable at all times. Again, in some districts of India, owing to the absence of perennial streams or suitable sites for the storage of water, irrigation works could not be established at all. In such places too railways were 'the only means for

provision against famines and scarcity' *(ibid)*. More generally, however, irrigation was not the only relevant alternative to be considered. Public expenditure could also be undertaken for the specific purpose of encouraging industrial development. And here, according to Ranade, the case for continued large-scale investment in railways was relatively weak. 'Facilities of communication are certainly desirable advantages, but more desirable still is the capacity to grow higher kinds of produce, and develop manufacturing and industrial activities' (EIE: 94).

Analytically, the question of which form of investment is more desirable can only be settled by applying specific decision criteria for public investment. This was not the way in which Ranade, or other economists of his time, looked at such questions. It is, however, to Ranade's credit that he did not confine his attention to the direct contributions of the investment to output and employment but also considered the extent to which it could indirectly help the long-run process of learning. The long-run view favoured investment in industry rather than transport, for 'The construction of railways can never be compared, in their educating influence, to the setting up of mills or Steam or Water Power Machinery for the production of manufactured produce in all parts of the country' (EIE: 95).

The direct economic benefits of railway investment had not been conspicuously high either. The financial return to government was relatively low, largely because of the high cost of construction, land being given to British construction companies free of charge and large sums paid in sterling as compensation for arrears of interest. For Indian industry the immediate results had been largely negative: 'The railway policy pursued by the Government has…except in a few Presidency towns, killed our local indigenous industries and made people more helpless than before, by increasing their dependence and pressure on agriculture as their only resource (EIE: 97). It is important to note that Ranade's objection was neither to the railways as such nor even to the sudden and intense competition from imported goods that indigenous industries had to face as a result of their extension. Competition was, after all, a natural result of the opening up of India's economy to foreign trade. And as Ranade had pointed out when discussing problems of India's industrial development it was not simply foreign versus indigenous competition that was involved but rather the competition of science and skill against idleness and ignorance. 'If', states Ranade, 'railways had been built by private enterprise unassisted by public funds, no objection could be urged against the effects of this foreign competition' ('The Economic Results of the Public Works

Policy', SJ October 1884, quoted in Karwal IJE 13:654). That, however, was not the case. In effect, therefore, India was being asked

> to make room for the foreign trader by paying him or his country a bounty to facilitate his competition with the native producer, and to give him land free of cost, and to arrange that the interest payments shall be punctually made in gold from year to year at any sacrifice, and finally to see with patience the native manufacturer and trader pushed out of his sphere of domestic industrial activity.
>
> (*ibid.:* 654)

It was extremely unlikely, said Ranade, that such an arrangement could have represented an optimal economic allocation of resources from the point of view of Indian society, even though political and military advantages accruing to government were substantial.

In common with other Indian economists of his time, Ranade emphasised that resources used for investment in railways could have been used elsewhere. In particular railway investment was seen as a substitute for investment in industry. Both development economists and economic historians now usually think of investment in railways and in industry as being complements rather than substitutes. The development of infrastructure, such as transport, is expected to contribute to industrialisation in the long run. Though Ranade did not directly address this argument he was aware of it. A recurrent theme in his writings was that the very considerable expenditures that had been made by government on public works were not yielding a satisfactory rate of either financial or economic return. This he attributed to low economic growth, for which in turn the lack of progress in manufacturing industry was held to be definitely responsible. Given the special, long-standing and formidable obstacles faced by Indian industry the extension of infrastructure would not, he believed, suffice for growth to occur. Direct steps by government to encourage private investment in industry were necessary. The development of railways *per se* would not lead to accelerated economic growth 'for unless they are accompanied by other and more important measures conducive to a better organization of national industries, they do not add to the intensive strength of the country, which alone furnishes a firm foundation to its expansive greatness' ('The Economic Results of the Public Works Policy', quoted in Karwal IJE 13:652).

Moreover, for the purpose of industrial development, it was not just the *construction* of railways that mattered. The structure of railway rates was relevant, too. Freight rates had been so designed that raw materials

destined for, and manufacturing good originating at, the ports were charged at a lower rate than similar goods travelling over the same distance between two places in the interior of the country. Such a policy was hardly calculated to stimulate domestic industrial growth. On the contrary, it tended to increase the cost of production of manufactured goods in India and to impede the development of new industrial centres. This might help explain why the impetus to economic growth coming from the development of infrastructure in transport figures so little in the writings of Ranade and other Indian economists of his time.

METHODOLOGY OF ECONOMICS

Ranade's economic writings were almost invariably addressed to specific problems of Indian economic policy. On occasion, however, he also discussed the question of the appropriate analytical framework in which such problems could best be studied. His writings on methodological issues are of interest not primarily for their intrinsic merit but rather because of their influence on the actual course of Indian economic thought in this century. Specifically, it helped to divert it away from the tradition of classical political economy 'and towards the historical-institutional approach favoured by the German School.

Ranade's chief objection to the classical school of economics was that the truth of its propositions depended crucially on certain underlying assumptions being valid. Because those assumptions reflected conditions in England, but not necessarily those elsewhere, classical political economy had only limited, rather than universal, applicability. In an oft-quoted passage, he suggested that the basic assumptions underlying 'the truths of economic science' not only *might* not apply to India, they *did* not.

> With us an average individual man is, to a large extent, the very antipodes of the economical man. The family and the caste are more powerful than the individual in determining his position in life. Self-interest in the shape of the desire of wealth is not absent, but it is not the only nor principal motor. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited competition except within certain predetermined groves or groups. Custom and State regulation are far more powerful than competition, and status more decisive in its influence than contract. Neither capital nor labour is mobile, and enterprising and intelligent enough to shift from place to place. Wages and profits are fixed, and not elastic and responsive to change of circumstances. Population follows

> its own law, being cut down by disease and famine, while production is almost stationary, the bumper harvests of one year being needed to provide against the uncertainties of alternate bad seasons. In a society so constituted the tendencies assumed as axiomatic, are not only not imperative, but are actually deflected from their proper direction.
>
> (EIE: 10–11)

The sentiments expressed by Ranade in this passage have been frequently repeated since and some have been used by sociologists to show that economics does not apply to the developing countries (but see Dasgupta 1974). Ranade himself takes a different view in the main body of his published work. In the passage quoted, for example, Ranade states almost as ‘a fact of life’ that factors of production are immobile, not being ‘enterprising and intelligent enough’ to move from one place to another. In his paper on ‘Indian Foreign Emigration’ (EIE: 130–69) on the other hand, he argues that although considerable migration occurred in India, from the more congested areas to those more thinly populated, internal migration did not offer enough scope for the movement of labour and that for relieving the pressure of population on the land emigration abroad would be a more effective remedy. Quite a large number of Indians, he observes, emigrated to the British, French and Dutch overseas colonies, but with encouragement from the government of India as well as from voluntary organisations many more would follow suit (EIE: 133). This clearly assumes that labour *is* enterprising and intelligent enough to shift from place to place and should be given every encouragement to do so. *A fortiori,* this can be supposed to be true of capital.

The question of how far labour and capital are mobile is itself part of a larger and more complex question, how far human behaviour is motivated by self-interest. Economic analysis does indeed assume that in situations which come into its province self-interest plays a strong and usually predominant part. In the passage quoted, however, Ranade goes beyond this by attributing to economists the far stronger view that the pursuit of wealth is the *only* ideal aimed at by human beings, rather than being one among others. There is little evidence that Adam Smith and his followers ever held such a view (Dasgupta 1988).

When it comes to suggesting policies to encourage economic development in India Ranade himself usually, if only implicitly, makes the assumption of self-interested behaviour. We have already seen an instance of this in his discussion of a policy for emigration. In considering whether to move or not, people do not think only in terms of self-interest (‘wealth’). Their natural attachment to their own village, neighbourhood, or soil tends to keep them in their own habitat. So do

fears of loss of caste and Hindu religious injunctions against travel overseas. Yet given sufficient economic incentive people do move, not only to more prosperous regions within India itself but also to distant lands across the ocean. The same belief in the ultimate appeal of self-interest underlies Ranade's recommendations on agrarian policy. As we have seen, the fundamental principle that he upheld was to remove whatever obstacles had prevented the individual farmer from obtaining 'that degree of well-being which he was capable of winning by his own exertions according to the best of his ability'. If this was done, farmers, by and large and given time, would respond, just as the postulate of economic rationality assumes.

The assumption of self-interest can be interpreted in diverse ways and if Ranade over-simplified the classical position he was in good company (see Dasgupta 1988). The same cannot be said of his remark on population. If it was a fact that population in India followed its own law, being cut down by disease and famine, this could hardly be said to demonstrate the inapplicability of classical political economy, but rather the contrary. Malthus's essays on population had been published a full half-century before Ranade wrote his piece. Disease and famine were among the positive checks on population growth to which Malthus had referred and a situation such as Ranade outlined could well be described in Malthusian terms. Nor did the fixity of wages contradict classical economics. The concept of a stable minimum subsistence wage had been clearly stated by Adam Smith and formed an essential part of the classical framework.

These considerations suggest that the criticisms by Ranade cited above about *specific* assumptions of economic analysis should not perhaps be taken too seriously. His remarks on methodology elsewhere in the same essay, as well as his own work on economic policy, suggest that his real concern was with a broader issue, namely the role of assumptions in a theoretical system. He deplored the 'absolutist' and 'universalist' interpretation that was often put on the 'laws of political economy', especially as applied to problems of economic development in India. Economic laws, he argued, are always of a hypothetical nature ('if *x* then *y*') and their validity depends on that of the assumptions that are made in deriving them. If, he observes, the assumptions underlying certain statements about economic behaviour hold only approximately, so will the explanations provided (EIE: 2). But few of the assumptions that are required in order to arrive at such statements hold exactly; they hold approximately, if they hold at all. Often, they do *not.* This does not necessarily mean that the theory is false but rather that it is being applied beyond its proper domain. Some of the assumptions underlying

economic theory do represent universals of individual behaviour. Others represent specific institutional features, some of which are historically determined and at any given time are characteristic of some societies but not of others.

Several important consequences follow. Ranade quotes Bagehot as saying that political economy was largely specific to contemporary England and 'rested on a convenient series of deductions from assumed axioms which are in many times and places not true' (EIE: 10). He also quotes Muller to the effect that, especially as developed by Adam Smith's more dogmatic followers, it was 'English and insular' (p. 20). Ranade's favourite example of such 'insularity' is the Ricardian theory of rent; and he expresses approval of Richard Jones for having attacked it as being true only of farmers' rents but not of *métayers',* cotters' or Indian *ryots'* rents (EIE: 19). Uncritical acceptance of the differential rent theory had led not only to much confusion in regard to the assessment of land revenue in India but also to encroachment on the profits and wages of the poor peasants.

Another instance of the hazards of generalising from the English experience was adherence to the principle of *laissez-faire* irrespective of circumstances. *Laissez-faire* had proved beneficial to England at a certain stage of her development. That did not mean it was the right policy for India, faced as she was with a very different set of circumstances. As we have seen earlier in this chapter, the point was of fundamental importance to Ranade's view of how Indian economic development could be achieved. While in regard to the railways the government of India had seen fit to move some distance away from the principle of *laissez-faire,* on far more pressing issues of industrial and agrarian policy it took a rigid stand.

Doctrinaire insistence on *laissez-faire* led India Office authorities in England to reject *tout court* policies that Ranade regarded as essential for Indian economic development. An example cited by Ranade concerns his proposal for a cooperative agricultural development bank. This was an integral part of the broader strategy he proposed for the development of agriculture based on the peasants' own exertions and investment. All the government was being asked to do was to guarantee interest payment on loans for an initial period. While government authorities in India tended to take a favourable view of this proposal, the India Office turned it down. Commenting on the difference Ranade suggests that while some at least of the officials in India recognised the special features of Indian life and society which made inapplicable some of the assumptions on which the doctrine of *laissez-faire* and classical political economy, in general, is based, the authorities in

England were totally out of touch with local conditions 'and their English traditions naturally predispose them to regard that the State, as such, had no functions or responsibilities in this connection' (EIE: 66). It was experiences of this kind that led Ranade to part company with those who

> seem to hold that the truths of economic science as they have been expounded in our most popular English text-books, are absolutely and demonstrably true, and must be accepted as guides of conduct for all time and place whatever might be the stage of national advance.
>
> (EIE: 2)

Instead, he laid down a broad methodological principle which could help in studying problems of Indian economic development. 'The method to be followed is not the deductive but the historical method, which takes account of the past in its forecast of the future; and relativity, and not absoluteness, characterizes the conclusions of economical science' (EIE: 23). This, he claims, follows from the nature of the subject itself, which is a branch of social rather, than of natural science, from the actual practice of the most civilised nations (which Ranade took to be England, France, and Germany) and the history of the growth of the theory itself (i.e. from its beginnings up to the development of the German historical school).

By *opposing* the deductive to the historical method in this way Ranade did scant justice to his own argument, for strictly speaking no 'forecasts of the future' can be derived without the deductive method being used at some stage of the argument. His own work on Indian economic policy amply bears this out, his advocacy of the Prussian model of agriculture for India being a case in point. Historical experience suggested the analogy but the forecast which justifies its adoption in India is implicitly based on the logic of rational behaviour by economic agents.

While in Ranade's work deductive and historical elements were always mingled, he did have strong reservations about a narrowly logical/deductive approach to economics which in his mind was associated with classical political economy, and particularly with the Ricardian school. The real issue involved is not so much the distinction between deductive and historical methods but rather that between a 'relative' and 'absolute' approach to economics (to which the second part of the statement quoted above refers). Here we come back to the conviction that underlies all of Ranade's writings: Indian economic problems cannot be solved by repeating maxims from English textbooks. This pernicious tendency, he believed, drew much of its

strength from the persuasive influence of the Ricardian school. Richard Jones, whose works were familiar to Ranade, had criticised economists who made a 'puerile effort to make reasoning supply the place of knowledge' (Jones 1831:325). In asserting relativity rather than absoluteness to be the 'characteristic of the conclusions of economical science' Ranade was making much the same point. Jones had emphasised the importance of studying the specific circumstances of particular societies, and so did Ranade, who was concerned with one particular society, namely the Indian society of his time.

Ranade's 'relativism', his concern with the concrete and the particular rather than the abstract and the universal, has had considerable influence on the course of Indian economic thought during the first half of this century. For Ranade, however, relativism itself was not 'absolute'. He believed, for example, that certain aspects of economics are *more* 'relative' to social and historical circumstances than others and commends to J.S.Mill for his recognition of an essential difference in this regard between laws relating to the production of wealth and those regulating its distribution. The former are universal, not so the latter (EIE: 7). Again, Ranade tried to distance himself from critics of 'absolute' economics such as Cairns who regarded economic laws not merely as relative and hypothetical but also as purely 'theoretical' in the sense that they were not capable of being tested empirically at all. Cairns had asserted that 'economic assertions are no assertions respecting the character or sequence of phenomena and that they can neither be established or refuted by Statistical or Documentary evidence' (quoted in Ranade, EIE: 7–8). Ranade not only disagrees but observes that this was not the position of the 'earlier teachers such as Smith, Ricardo, Mill, McCulloch or Malthus who while using the method of abstraction, did believe that their reasoning dealt with "human beings as they actually exist"' (EIE: 8). The question is perhaps more complex than Ranade allowed, for one could hold both that economic laws relate to human beings as they are *and* that they cannot be statistically tested (because, for instance, of the influence of disturbing factors). To pursue the question of testability which crops up in some of Ranade's other writings as well, would take us too far away from our present concern (but see Blaug 1968:215–16).

An important reason behind Ranade's advocacy of a relativist economics was his belief that classical political economy was 'English and insular'. It assumed, or so he believed, that economic laws, if applicable to contemporary Britain, must be universal, absolute and necessary truths. Such a reading of classical economics was, and still is, widely shared, but the present writer is not convinced that it is a fair

reading. Ricardo himself expressed scepticism about the universal validity of English experience. He acknowledged, for example, that in arriving at judgments about legislation affecting economic and social matters in foreign countries such as India, a strong possibility of bias arose 'from our own peculiar habits and prejudices, we should frequently see these things through a false medium and our judgment would err accordingly' (Ricardo to James Mill, 9 November 1817 *Works* VII: 205). Elsewhere he describes the government and laws of one state of society as 'being often very ill adapted for another state of society' (Ricardo to James Mill, 8 December 1817 *ibid.:* 229). The sentiments expressed here are not very different from those of Ranade himself.

The specificity of economic models was asserted more categorically by J.S.Mill who drew attention to the influence of social institutions on individual behaviour and criticised people given to generalising empirically from the inhabitants of their own country to those of other countries, 'as if human beings felt, judged and acted everywhere in the same manner'. Nevertheless, these reservations were not shared by many who invoked the authority of the classical economists; in particular, as we have seen in the context of Indian famine policy, they were far from common among those responsible for the formulation of economic policy in India. In the circumstances it was natural for Ranade, who had direct personal knowledge of the damage that unquestioning faith in 'absolutist' economics could inflict, to seek an alternative paradigm.

Ranade's writings contain numerous references to the work of economists outside the classical tradition. Among them, apart from the Mercantilists, usually referred to as a group, are Carey, Sismondi, Dunoyer, Gioga, Leslie, List and Muller. At first glance they might appear a motley crowd but for Ranade they had the merit of sharing a number of characteristics in common, namely, the recognition of the 'relativity' of economic conclusions, a belief in 'balanced' economic growth and being in favour of state intervention in the economy as opposed to *laissez-faire,* in order to promote economic development. Ranade was not a historian of economic thought. In citing economists of the past, his purpose was to show that the 'English' tradition did not have a monopoly of wisdom and that there were authors who had argued cogently, and sometimes successfully, for just the same kind of policies that Ranade himself was trying to achieve for India. Thus, he tried to dissociate Mercantilism from the Bullionism of the fourteenth and fifteenth centuries. To regard the Mercantilists as Bullionists was 'utterly unfair and one-sided'. One may recall that Ranade was a strong

opponent of Bullionism himself and regarded the hoarding of gold not only as unproductive but also as a major obstacle to industrial development in India. The elements in Mercantilism that Ranade emphasised were its preference for the commerce and manufacturing sectors over agriculture and its support of state intervention in the economy for the purpose of developing them. Such an approach, he believed, was partly responsible for the considerable economic progress that had been achieved in self-governing countries such as Germany and the USA. It also appeared to represent the economics of the future.

> Speaking roughly, the province of State interference and control is practically being extended so as to restore the good points of the mercantile system without its absurdities. The state is now more and more recognised as the national organ for taking care of national needs in all matters in which individual and cooperative efforts are not likely to be so effective and economic as national effort.
>
> (EIE: 34)

At the same time, Ranade regards state intervention in the economy as essentially a temporary expedient and, characteristically, attributes the same view to others, including Colbert whom he describes as believing that 'State protection and control were but crutches to teach the nation to walk and that they should be thrown away when the necessary advance had been made' (EIE: 15)

Another important influence on Ranade was Friedrich List. Ranade's approach to development issues owes much to List's theory of 'the powers of production', which asserts that 'the power of producing wealth is infinitely more important than wealth itself (List 1885:133). This is contrasted with the overwhelming emphasis on the flow of consumption, and the utility derived from it, in the mainstream tradition deriving from Adam Smith. Another idea of List's that Ranade found useful was 'the stages of economic growth'. This not only provides a rationale for industrialisation but also teaches the 'lesson that economic policy has to do with changing economic structures and therefore cannot consist of a set of unchanging receiptes' (Schumpeter 1954:442), thus bearing out the 'relativity' of economics. Unlike List, however, Ranade did not come out in favour of protective tariffs to help the growth of domestic industries. This underlines an important difference between their situations. While List was a spokesman for a sovereign nation, Ranade, and his fellow nationalists, could only appeal to the goodwill of colonial rulers.

8 Towards independence

The period from the end of the first decade of this century to World War II saw considerable progress in India. The average annual rate of increase of manufacturing output is estimated at about 4 per cent during 1913 to 1926–9 and above 5 per cent during 1926–9 to 1936–8 (CEHI 2:609, Table 7.11). Between 1913–14 and 1938–9 the share of manufactured output in national income doubled, increasing from 3.75 to 7.5 per cent (*ibid.:* 611). Ranade's optimism about prospects of Indian industrial growth thus turned out to have been at least partly justified. Political reforms to the Raj began allowing Indians for the first time a limited degree of self-government while the national movement for complete independence from British rule continued to grow in sweep and intensity. For a historian of economic thought, however, the period has relatively little to offer. We shall consider the following topics in successive sections: the principles of discriminating protection; the economics of education; the controversy on the rupee-ratio and the measurement of national income.

FROM FREE TRADE TO DISCRIMINATING PROTECTION

During the nineteenth century, as we have seen, the influence of classical political economy extended not only to British officials but also to Indian nationalists. However, their interpretations of classical doctrine often differed. The official view adhered to a particularly rigid and doctrinaire version, oblivious to even such exceptions to *laissez-faire* as the classical economists themselves had allowed. This was especially so in regard to the doctrine of free trade. Indian economists on the other hand were inclined to take a broader view and quoted J.S. Mill in support of their approach. They pointed out, for example, that the infant industry argument was perfectly in accord with the Ricardian theory of international trade based on comparative advantage. The general principle that state activity to encourage industrial growth should always be, as Mill had put it, 'in aid of

private efforts rather than in supersession of them' (Principles of Political Economy, Book 5, Ch. 11, in *Collected Works,* Vol. 3, Toronto, 1965:971) was accepted by almost all Indian economists of the time. Quoting Mill, G.V.Joshi, a prominent follower of Ranade, pointed out that state aid

> when once invoked is often apt to degenerate into aggressive State action, supplanting private effort; and therefore, in seeking it, we propose to surround it with such strict limitations of scope, direction and time as are laid down by Mr Mill.
>
> (Joshi 1912:828–9)

In particular, Joshi warned against the danger of Indian enterprise 'being kept in the swaddling cloths of State protection and be disabled for independent economic advance for all time to come' (p. 823). This did not, however, justify a *laissez-faire* approach to industrial development in India. Following the experience of World War I (1914–18) the British official view stopped regarding India's departure from free trade as unthinkable. In 1921 the Indian Fiscal Commission was appointed with a majority of Indian members to recommend an appropriate tarrif policy. The Fiscal Commission report stated the following principles for granting protection.

Firstly, the industry must be one possessing natural advantages, such as an abundant supply of raw materials, cheap power, an adequate labour supply and a large home market. Secondly, the industry must be one which, without the help of protection, is not likely to develop at all, or not as rapidly as is desirable in the national interest. Thirdly, it must be one which will eventually be able to face international competition *without* protection. Together, these conditions, which came to be known as the 'triple formula', are an expression of the infant industry argument for protection. There was some difference among members of the Commission on how widely the argument was expected to apply in practice. The Report itself stated that as a rule new industries should *not* be granted protection. As against this, a Minority of the Commission, which submitted a minute of dissent, wanted a general declaration in favour of protection. They were also more optimistic about India's industrial potential and believed that the goal was not simply that of concentrating 'for many years to come…on the simple forms of manufactured goods' but of India developing into one of the world's foremost industrial nations. On the question of what grounds would constitute a justification for granting protection, there was, however, no difference. Both Majority and Minority agreed that the infant industry argument provided the right answer. They also agreed that basic industries formed an exception: 'Our

general view is that the decision whether protection should be given to basic industries should rest rather on considerations of national economics than on the economics of the particular industry' (*Report:* 61).

How the Fiscal Commission's formula was actually applied to Indian industries seeking protection is outside the scope of this book. We shall merely note that Indian economic literature, especially during the thirties, often criticised the government's fiscal policy for following an unduly rigid, unsympathetic interpretation of the principles recommended by the Fiscal Commission. Critics observed in particular that the first principle stated by the Commission, that of natural advantage, was being interpreted by government to imply that no industry based on the use of an imported raw material was entitled to protection even if it enjoyed the other advantages mentioned. They also pointed out that if an industry enjoyed *all* possible natural advantages from the beginning, it should hardly be in need of protection. As against this, it should also be noted that principles other than those recognised by the Fiscal Commission were used on occasion to grant protection, too. One such principle was to safeguard an industry against 'unfair competition'. This was used as justification for giving protection to the Indian cotton textiles industry, which was no infant. As always, tariff policy was not governed exclusively by economic principles. A further broadening of the principles for granting protection was expressed in the guidelines provided by the government of India to a special Tariff Board which was set up in April 1945 to examine claims for protection by industries that had sprung up during the war. Two broad principles were laid down:

1 The industry to be assisted must be established and conducted on sound business lines; and
2 *either* (a) having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost it was likely, within a reasonable time, to develop sufficiently to be able to carry on successfully without protection or state assistance; or (b) the industry was such that it was desirable, in the national interest, to grant protection or assistance to it and the probable cost of such protection or assistance was not excessive.

This was a very consierable departure from purely infant industry considerations and could have provided a basis for 'developmental' protection. After independence, however, tariff policy itself was soon replaced by quantitative restrictions giving rise to problems that will be considered in Chapter 10.

GOKHALE AND THE ECONOMICS OF EDUCATION

While Ranade had taught that industrialisation was a long-drawn-out learning process, he did not believe that formal school education was particularly important for this purpose. In his view, the literary and mercantile classes, which constituted some 10 per cent of the population, needed to have a higher education to provide leadership. For the agricultural masses, a practical knowledge of the rudiments of reading and writing sufficed and this could be provided cheaply and adequately through the indigenous school system. ‘They require to be better fed and clothed and housed before they can be asked with advantage to educate themselves’ (‘Primary Education and Indigenous Schools’, SJ July 1882, quoted in Kellock 1926:52). No great expenditure by the state on primary education was, therefore, necessary. In particular, Ranade argued against proposals for withholding state help from higher education in order to do more for primary education.

G.K.Gokhale, widely regarded as Ranade’s ‘successor’ in the Indian national movement, insisted on the importance of *human* capital and especially of education. He was the first in India and possibly one of the first anywhere to describe mass education as a prerequisite for economic development. He fought all his life for the extension of education in India, writing, speaking and sometimes legislating in favour of female education, technical and higher education, but above all, primary education. Without mass literacy, he believed, India could not develop. As he put it in his speech on the Budget Statement of 1903, ‘an ignorant and illiterate nation can never make solid progress’. The primary purpose of mass education was, he believed, to banish illiteracy from the land. ‘The quality of education is of importance that comes only after illiteracy has been banished’ (*Speeches and Writings* 1962–7:3, 125).

The view of literacy as an element of human capital runs through all of Gokhale’s writings on economic matters. In an address to the Bombay Graduates’ Association in 1896, on ‘Education in India’, he declared that the spread of primary education ‘means the future salvation of our country’ (*Speeches and Writings* 1962–7:3, 166). Universal education could help the farmer to resist exploitation by the money-lender, to improve sanitation, to shake off superstition, to increase his earning capacity and to take an intelligent interest in public affairs. Gokhale did not, it is true, regard education exclusively as a capital good, it had consumption benefits as well. In a speech he delivered in the Imperial Legislative Council, Gokhale described as a ‘monstrous and cruel wrong’ that millions and millions should be left without the rudiments of knowledge and that ‘the joy of that knowledge’ should not be experienced

by them. However, when arguing the case for mass education, it was to the capital good, rather than the consumption good, aspect that he usually appealed.

The Imperial Legislative Council, of which Gokhale was a non-official member, was reformed in 1910, one of the reforms being that non-official members were now given the right to move resolutions. At the very first meeting of the reformed council, Gokhale proposed that a beginning should be made in the direction of making elementary education free and compulsory throughout the country, and that a mixed commission of officials and non-officials be appointed to frame definite proposals. Gokhale was persuaded to withdraw the resolution by an assurance from government that the matter would receive official attention. Meanwhile, his plea for mass education attracted wide public attention. Almost single-handed, he had succeeded in making elementary education in India a live issue.

Eventually, in 1911, Gokhale introduced his Elementary Education Bill. This was modelled on the Irish Education Act of 1892 and the English Education Acts of 1870 and 1876, and sought to introduce the principle of compulsion into elementary education.

In order to forestall objections on financial grounds, Gokhale made his proposals deliberately modest. The scheme was to be applied only to selected areas where elementary education had already developed up to a point, and which were to be specially notified by municipalities and district boards. These local bodies, which were to bear part of the expenditure, were to be empowered to levy a special education tax. Compulsion was to be applied only to boys between the ages of six and ten though it could be extended to girls of the same age group with the approval of the provincial governments. School fees were not to be charged to parents whose income was less than ten rupees a month and, to avoid hardship, whole classes or communities could be exempted from the operation of the bill.

In introducing his bill, Gokhale brought out the role that mass literacy had played in the economic development of other nations. In several European countries, and in the United States of America, Canada and Australia, whole populations could read and write but in India only 6 per cent of the people were literate. Gokhale estimated expenditure on elementary education to be 16s per head in the USA, 10s. in England and Germany, 4s. 10d. in France, 7 1/2d. in Japan, 7 1/2d. in Russia, and barely a penny in India.

To counter objections by exponents of *laissez-faire* to the element of compulsion, Gokhale pointed out that most developed European countries as well as the USA, Australia and Japan had made elementary education

both free and compulsory. If illiteracy was to be banished from India within a measurable period, he saw no escape from some form of compulsion which had contributed greatly to the spread of literacy in England and Japan. He urged the government to adopt elementary education as its own policy, and to provide funds for it as 'Governments in other civilized countries are doing'.

Gokhale was a follower of orthodox finance. In 1902 he had said:

> The true guiding principle of Indian finance ought to be a severe economy, a rigorous retrenchment of expenditure in all branches of administration consistent with efficiency, keeping the level of taxation as low as possible so as to leave the springs of national industry free play and room for unhampered development.
>
> (quoted in Lokanathan 1941–2:225)

He did not regard greater public expenditure in education as a violation of these principles. In particular he had come to interpret the principle of 'reducing expenditure consistently with efficiency' so very broadly that it could actually mean considerable *increases* in items of expenditure which he regarded as necessary to economic development. In effect, Gokhale's programme was directed not so much at the aggregate level of public expenditure but rather at the allocation of this aggregate between different items and areas. In his speech on the Budget Statement of 1908, he stated the basic principle which should govern this allocation:

> The expenditure on the Army, the Police, and similar services may be necessary but it is a necessary evil and, consistently with the maintenance of a proper standard of efficiency, it must be kept down as far as possible. On the other hand no state especially in these days can spend too much on an object like education.
>
> (*Speeches and Writings* 1962–7:3, 136)

Similarly, he favoured greater public expenditure on sanitation and health. And while he wanted expenditure on law and order and defence to be scrutinised much more carefully, the principle of efficiency applied to 'social' expenditure as well. The 'frills', he thought, could be dispensed with 'And for God's sake do not wait for your trained teachers, for your decent school houses, till you take up the question of removing illiteracy from the land in hand' (*Speeches and Writings* 1962–7:3, 142)

Gokhale's education bill attracted wide though not universal support in 'nationalist' circles. Surendranath Banerjea, a prominent leader of the Indian National Congress, opposed it on the ground that it would divert

resources from higher and, especially, university education which in his view should have a higher priority. Of two Indian (official) members of the Imperial Council who questioned whether widespread literacy was at all desirable, Gokhale remarked that there were men belonging to this class even in Western countries who had 'the same distrust of mass education'. Far more important, however, was the attitude of the government of India which, as usual, was concerned mainly with aggregate costs. This was a particularly pressing consideration at the time because of the impending loss of revenue from the monopoly of the opium trade with China. Nevertheless, Fleetwood Wilson, the Finance Member, did favour increasing educational expenditure and hoped that the required funds could be found by economising on civil and military administration. For Harcourt Butler, then in charge of the Department of Education, the real issue was not whether mass education was to be made compulsory but what its cost would be. Free elementary education, he wrote

> is advocated in Legislative Councils, at public meetings and in the press, by landowners no less than by lawyers; and philanthropists and politicians are starting free institutions, night schools and the like. True, Gokhale's Bill contemplates the payment of fees by parents whose income exceeds Rs. 10 per mensem, but the public prefers the abolition of fees to the contingent introduction of the compulsory principle…
> (quoted in Nanda 1977:391)

In May 1911, Butler estimated that at prevailing prices the cost of providing free elementary education throughout British India would be about Rs. 50 *lakhs* a year—a sum which he thought was well within the means of government.

The Viceroy agreed, and proposed that action on the lines proposed by Gokhale should start forthwith. In the end, however, Gokhale's efforts were frustrated by opposition from provincial governments, which was mainly political rather than economic in nature. Clarke, then Governor of Bombay, warned the Viceroy that the movement for mass literacy was the work of agitators who

> well realize that their power to stir up discontent would be immensely increased if every cultivator could read…we shall never be able to teach the great mass of people long enough or thoroughly enough to make them *permanently* able even to read and write; but we can, and we shall, do much to promote general discontent. In that part of their calculations the Gokhales are perfectly right.
> (Clarke to Hardinge, 21 July, 1911, quoted in Nanda *op. cit.:* 392)

Nanda provides an instructive summing up:

> The Bombay Governor's prejudices and fears were typical of the British ruling class in India. The local governments were on the whole hostile to the bill. Governor Clarke's own government pronounced compulsory elementary education as 'an unwarranted interference with the liberties of the people'. The Bengal government saw no objection to the principle of mass elementary education, but ruled it out on the ground of shortage of money and trained teachers. The Punjab government warned that the majority of the people in that province were opposed not only to compulsory education, but to any education whatsoever. The UP government even predicted a popular uprising if parents were compelled to educate their children! Only the backward province of Baluchistan saw no danger in free and compulsory education.
>
> (Nanda 1977:393)

In the long run Gokhale's advocacy probably did contribute towards gaining social acceptance and, eventually, legal recognition of the principle of free and compulsory primary education in India. His belief in mass literacy as a precondition of economic development did *not,* however, succeed in becoming part of the received doctrine of Indian economic thought either before or after independence. It was higher, especially university, education that received greater attention.

THE RUPEE-RATIO

Indian currency, wrote Keynes in a review published in the *Economic Journal* in 1920 (*Collected Writings* XI: 40), 'can always find some new thing with which to interest and instruct the student'. It was not, however, always the most interesting or instructive questions that claimed the greatest share of public attention. The debate on the rupee-ratio is a case in point.

In 1925, shortly after Britain returned to the Gold Standard, a Royal Commission on Indian Currency and Finance (the Hilton-Young Commission) was appointed to 'examine and report on the Indian exchange and currency system and practice to consider the interests of India and make recommendations'. Its most important recommendations were to set up a Central Reserve Bank in India and establish a gold bullion standard under which the currency would in effect be convertible into gold at a fixed rate equivalent to a rupee-stirling rate of 1s. 6d.

It was this rate, 'the rupee-ratio', on which discussion came to be focussed. Indian opinion was inclined to the view that 1s. 6d. would lead to the rupee being over-valued and favoured a lower ratio of 1s. 4d. The

official view prevailed. Indeed, the evidence suggests that the government had already decided on the exchange rate at the time the Hilton-Young Commission was appointed (Tomlinson 1979:204–8). Indian industrial circles regarded the 1s. 6d. ratio as amounting to a bounty on imports. In their memorandum to the commission the Ahmedabad Millowners' Association argued that the higher parity, by reducing import prices, would promote importation of Japanese textiles, to the detriment of indigenous production. Similar sentiments had been expressed by textile interests before. The chairman of the Bombay Millowners' Association, for example, giving evidence to an earlier enquiry on Indian currency, the Babington-Smith Committee of 1920, had stated that 'a high rate of exchange has proved from past experience to be generally prejudicial to the sound and healthy progress and development of textile industries, especially cotton, in this country' (Report of the Babington-Smith Committee, *Evidence:* vol. II: 82).

Tomlinson observes:

> The most powerful section of Indian commercial and business opinion, that grouped around the Bombay cotton magnates, had always advocated a cheap money policy to stimulate industrial growth and welcomed currency inflation as a method of easing credit and raising internal purchasing power.
>
> (Tomlinson 1979:204)

During the first half of the decade of the twenties, the actual monetary policies pursued by government were instead severely contractionary. Indian economists of the Bombay School, of whom Professor C.N. Vakil was a prominent member, were concerned not so much with the implications of a high exchange rate for imports or exports but mainly with the contraction of currency and credit and the consequent fall in prices that the new exchange regime threatened to bring about. The report of the Hilton-Young Commission had stated:

> When prices and other conditions are in adjustment with those in the world at large on the basis of an existent exchange rate the question of the means by which that rate came into being has no bearing on the extent or violence of the rate.

The official view was that 'prices and other conditions' in India had already adjusted to world conditions on the basis of a higher exchange rate. Most Indian writers, on the contrary, believed that prices were too low for healthy commercial growth and that fixing the parity at 1s. 6d. would make matters worse by depressing the market further.

In an article published on the 9 May 1925 (*Collected Writings* X: 362–5) Keynes had pointed out that whether a set of internal prices were adjusted to world prices in terms of purchasing power parity of the currency concerned was essentially an *empirical* question. A correct answer required the use of proper data and appropriate index numbers. For this purpose it was necessary to distinguish between three classes of goods. The first consisted of raw materials traded regularly in the world market; their prices *always* stood at their world parity. To the second class of goods belong manufactured products which are exported and imported: their internal prices could not move very much above their international parity, for this would lead to a cessation of trade in them. The third class consisted of non-traded goods and services such as housing, personal services, railway charges, and so on. The prices of these could, for a time at least, depart materially from their normal parity with those of the other two types, though, according to the Purchasing Power Parity theory, *in the long run* they too would fall in line.

> For this reason, the cost of living index numbers in which goods of the third class play a much larger part, may sometimes give a better clue to the real situation than the wholesale index numbers which are made up so largely of the first class.
>
> (*ibid.:* 364)

It was, however, wholesale price indices that government used to prove its case that prices in India were fully adjusted to world prices at the going exchange rate. P.Thakurdas, a prominent industrialist and a spokesman for the ‘Indian’ point of view, showed greater awareness of what was involved when, in giving evidence to the Hilton-Young Commission he quoted from Keynes’ ‘Economic Consequences of Mr Churchill’ and argued that India would take much longer than Britain to achieve purchasing power parity because of the lower proportion of Indian goods that was internationally traded. However, Indian economists often fell back on unreliable figures, inappropriate index numbers and sloppy reasoning in order to prove that 1s. 4d. was the equilibrium exchange rate and 1s. 6d. was not. The question of the rupee-ratio has a political aspect. According to Sir C.D.Deshmukh, the first Indian Governor of the Reserve Bank of India, ‘the absence of any popular check on the monetary action of the Government of India (likewise) led to developments which culminated in the fixing of the exchange at 1s. 6d.’ (quoted in CEHI 2:792). The economic importance of the ‘ratio’ appears to have been somewhat exaggerated, however, and some other aspects of currency and monetary policy unduly neglected in the literature of the time.

NATIONAL INCOME MEASUREMENT

Attempts to measure Indian national income began with Dadadhai Naoroji (1871) who estimated the national income of British India for 1867–8. Subsequently a number of point-estimates of the national income of British India for selected years were made by, among others, Lord Curzon; Atkinson; Shah and Khambata; Wadia and Joshi; and Shirras (see Mukherjee (1965) for details). These all suffered in greater or lesser degree from a number of serious limitations. The database, especially for the predominant sector, agriculture and allied activities, was meagre. The underlying methodology was often questionable. Naoroji, for example, held the physiocratic belief that only material production could properly be included in a measure of national income and accordingly left out services from his calculation. And estimation was not always free from political bias, some being concerned to show that Indians were being impoverished by British rule and others that they were being enriched.

The credit for the first attempt at measuring Indian national income on modern scientific lines belongs to V.K.R.V.Rao. In his first work on this subject, *An Essay on India's National Income, 1925–9* (1936) Rao critically reviewed previous estimates of Indian national income during the second half of the nineteenth century, discussed the methodological issues involved and derived his own estimates of the National Income of British India during 1925–9. These ideas were further developed in his second work on this topic, *The National Income of British India, 1931–32* (1940), which was primarily an estimational analysis using the results of special investigations on income generated in particular sectors, as well as published data. For computing his own estimate of India's national income Rao divided the economy into three broad sectors. The first consisted of agriculture, mines, forests, pastures, fishing and hunting; the second of industry, trade, transport, public services and administration, professions, liberal arts and domestic services; while the third was made up of housing, together with residual items which failed to be covered by the first two categories. For calculating national income Rao applied the 'output' or 'production' method to the first and the 'income' method to the other two categories. To these he added net income from abroad, thus arriving at his estimate of national income. Rao's work provided both a standard and a basis for future work on the measurement of national income in India (see also Rao 1983).

9 Gandhian economics

'Mainstream' developments in Indian economic thought since the late nineteenth century have been described in the last two chapters. This chapter describes what can be called an alternative and parallel tradition. It deals with the economic thought of M.K.Gandhi (1869–1948), and has been divided into seven sections. Some methodological issues are raised in the first section; Gandhi's views on consumption are discussed in the second (which states his doctrine of the limitation of wants) and the third (which develops his concept of *swadeshi*). His ideas about the technology and scale of production are summed up in the fourth section and his theory of trusteeship and its implications for industrial relations are discussed in the fifth. Section six looks at Gandhi's views on charity, leisure and the sanctity of work, and the concluding section examines the long-run relevance of Gandhian economic thought.

METHODOLOGICAL ISSUES

'When the history of economic thought in India in recent times comes to be written,' wrote Anjaria (1941–2) 'Gandhi's name will certainly occupy a place of honour in it.' However, he hastened to add, 'It does not matter in this context whether we call Gandhi an economist or not: that is partly, at any rate, a question of definition of terms' (p. 357).

Indeed, Gandhi was much farther off the mainstream of economics than other Indian nationalist economists, such as Ranade, had been. Railways have spread the bubonic plague and increased the frequency of famines in India (CW 10:26), machinery is a 'grand yet awful invention' (CW 48:353); a doctor or a lawyer should be paid the same wage as a labourer (CW 62:219), the law of supply and demand is 'a devilish law' (CW 62:241), tractors and chemical fertilizers will spell ruin for India (CW 90:480). It is for voicing opinions such as these that Gandhi as an economist is remembered. Even a sympathetic reader may

find it difficult to take such statements at their face value. This could help explain why, although Gandhi has come to be accepted world-wide as one of the outstanding political and moral thinkers of our time, his economic thought still attracts little attention. Some of the methodological issues involved will be considered here. We begin by taking up a question that is likely to strike a careful reader of Gandhi's economic writings: do they simply describe a dream of utopia, or are they meant to resolve problems of the 'real' world?

Gandhi himself often likens his economic 'model' to Euclid's definition of a straight line (CW 85:267) but this is consistent with either intepretation. It could mean that like the straight line 'which cannot be drawn' the Gandhian model relates to an ideal economic order where people could well be motivated quite differently from those in any society that we know of. However, it could also mean that 'something like' a straight line can be drawn, and in economics as in geometry the postulational method can help in achieving clarity in thought and in solving real-life problems, for 'we must have a proper picture of what we want before we can have something approaching it' (CW 85:33). Both versions contain elements of truth.

Gandhi was not an academic but the charismatic leader of the Indian national movement. He was inspired by a vision of *"swaraj"* (self-government) which, for him, meant not just freedom from colonial rule but the achievement of self-reliance, and self-respect, by the villagers who make up most of India's population. His economics was a part of this vision, which ruled out industrialisation on Western lines as the 'optimal' path of economic development for India.

Thus, Gandhi was trying to describe an economic ideal to strive for rather than simply an economic plan to implement. To that extent his economics was utopian. However 'utopian' can also refer to something 'impractical' or even 'impossible'. Gandhi's economic thought was not 'utopian' in that sense. It was certainly meant to apply to an actual society, that of rural India in particular. It would still apply only to a few selected aspects of that society while neglecting others but that is true of *all* economic models. The case for this 'pragmatic' view of Gandhian economics appears more plausible if we remember the context of his writings.

Most of them appeared in daily newspapers or weekly journals, *Young India* (in English), *Navajiban* (in Gujarati), and *Harijan* (in Hindi), and were addressed to a mass audience whose attention he tried to capture by making his points short and sharp. In this he succeeded and as a journalist, especially during the 1920s and 1930s, he exercised considerable influence. Exaggeration was the price of successful

journalism. It must be remembered too that Gandhi's writings were produced and published in the heat of political battle. This led to simplified, sometimes over-simplified, conclusions.

Yet another argument in favour of this intepretation is that Gandhi regarded his conclusions on economic policy as only provisional. Thus, in his preface to *Hind Swaraj,* he described the views expressed there as 'mine, yet not mine' (CW 10:7). They were his only in the sense that he hoped to act according to them. If, however, his views proved to be wrong he would have no hesitation in rejecting them (CW 10:7). Gandhi's American biographer, Louis Fischer, notes this provisional aspect of Gandhi's ideas: he was always 'thinking aloud': 'He did not attempt to express his ideas in a finished form. You heard not only his words but also his thoughts. You could, therefore, follow him as he moved to a conclusion' (1951:406). In the same spirit he came to admit that some of the things he had earlier condemned, e.g. railways, motor cars, and machinery, could in certain circumstances confer benefits too, and that they should not be prohibited altogether. Appropriate restrictions on their use could perhaps provide adequate safeguards against misuse (CW 31:277).

Writings on Gandhian economics have usually focussed attention on the specific policies that he proposed. Opposition to modern manufacturing production based on the use of machinery, advocacy of village industries, in particular, the spinning wheel, boycott of foreign goods, it is with policies such as these that Gandhi's name is associated. In our argument proper understanding of his views requires a rather different emphasis. The structure of his arguments, the assumptions he made, and the principles of conduct that he appealed to, must be regarded as of central importance. It is these, we believe, that make his specific policy proposals comphrensible, not the other way round. We thus agree with Anjaria (*op. cit.:* 358) that 'Gandhism is not just a series of disjointed maxims of policy or a catalogue of urgent reforms and remedial measures' and with Nanda (1985:145) that 'What is called Gandhism is…only a distinctive attitude to society and politics rather than an ideology; a particular ethical standpoint rather than fixed formulae or a definitive system'.

From this point of view what really differentiates Gandhi's approach to economic issues from the mainstream tradition is his extraordinary emphasis on the ethical aspect of economic behaviour. Indeed, he believed that economic and ethical questions were inseparable. Replying to the poet Tagore who had reproached him for mixing these up, Gandhi wrote: 'I must confess that I do not draw a sharp or any distinction between economics and ethics' (*Young India* 3 October

1921). They could, Gandhi said, be considered separately, as indeed they usually were but for conclusions to be relevant and valuable, they should not.

Ethical and economic criteria must be considered together for either to be valid. True economics never militates against the highest ethical standard just as all true ethics, to be worth its name, must at the same time 'be good economies'. Since for Gandhi ethics also constitutes the essence of religion, the same two-way relationship holds as between economics and religion, and even more generally between economics and *Dharma.* 'If dharma and economic interests cannot be reconciled either the conception of that dharma is false or the economic interest takes the form of unmitigated selfishness and does not aim at collective welfare' (CW 31:276). According to Gandhi it is because standard economic analysis failed to take ethical considerations into account that economics itself had become largely irrelevant for either understanding behaviour or prescribing policy. Not only were the generally accepted principles of economics invalid for policy making, if they *were* acted upon they would make individuals and nations unhappy (CW 8:371). 'Economists do not take men's conduct into account but estimate prosperity from the amount of wealth accumulated and so conclude that the happiness of nations depends on their wealth alone' (CW 8:372). Accordingly he likens the economics that disregards moral and sentimental considerations to 'wax-works that being life-like still lack the life of the living flesh' (CW21:357).

For all his distrust of economic analysis Gandhi never relinquished a belief in the vital importance of economic considerations for the life of individuals and nations nor in the possibility that a less narrowly focussed and more relevant economics could be developed. He never gave up entirely, never ceased to ask: 'Can we evolve a new kind of economics?' (CW 62:241).

These beliefs are an integral part of Gandhi's view of the nature of ethics. The relationship between economics and ethics worked both ways. While economic behaviour was laden with ethical concepts ethics had to descend from the clouds and become 'good economies'. Ethics, Gandhi is saying, is not simply an exercise for philosophers. It must be relevant to the 'ordinary business of life' where one's options are limited by resource contraints. 'No person in this world has found it possible to maintain something which is a source of constant economic loss' (CW 31:276). Trying to carry out ethically good policies by methods involving continuing economic loss was futile. Viable methods of financing projects had to be found. This helps explain why Gandhi, who worked all his life for the cause of protecting animals, and cows in

particular, regarded schemes for conducting tanneries on sound economic lines as essential for the cause to succeed. That required exploring possibilities of profitable export, utilising by-products, and 'putting bones, hides and intestines of cows to practical use' (CW 41: 449–50); also CW 51:428 and CW 52:373). Similar reasoning explains why Gandhi strongly opposed a proposal that cotton spinners should also be encouraged to weave. 'It can be clearly shown that this involves an economic disadvantage.' He continues: 'Whatever is basically harmful on economic grounds is also certainly harmful from the religious point of view. Untainted wealth can never be opposed to religion' (CW41:364–5).

On the whole we agree with Anjaria that 'the Gandhian system of economic thought cannot be adequately appraised merely in terms of current economic theory which rests on certain limited assumptions. It is a challenge to those assumptions themselves' (*op. cit.:* 358). In that sense, Gandhi must be regarded as a dissident from the economic tradition. There are, however, a number of methodological positions which he held in common with that tradition. Among these his adherence to the deductive method and to methodological individualism are especially note-worthy.

Gandhi was generally in favour of analytical reasoning based on the deductive method applied to a set of postulates. His writings contain numerous references to Euclid and Galileo whose approaches to problem solving he held out as models for the social sciences. While he criticised economic analysis for failing to take ethical considerations into account he was not against the method of abstraction as such. Some 'holist' critics of economics maintain that human behaviour constitutes a single 'organic' whole. Hence they argue that even in principle, the economic aspect of it cannot be isolated from all the others. On this view human behaviour can only be observed or understood 'as a whole'. Because the method of abstraction does not apply, there cannot then be any such thing as 'economic analysis'. That was not Gandhi's view. He remained committed to the validity of analytical reasoning based on the method of abstraction. 'Euclid's straight line may not be capable of being drawn on a blackboard. But the impossibility of the task cannot be permitted to alter the definition' (CW 25:335). The problem with the economic model, as Gandhi saw it, was not that it abstracted from some aspects of reality but rather that the particular aspects it abstracted from were central to the phenomena under study. Ethical influences on economic behaviour could not properly be treated as disturbing factors that 'prevented economic laws from having free play' (CW 58:353). It was not reasonable to abstract

from them even as a first approximation. Nevertheless, if more appropriate assumptions were made valid conclusions could be reached using the deductive method.

Again, Gandhi's approach in ethics as in economics remains firmly rooted in methodological individualism. He opposed collectivist theories both of state and society. While he often chided his countrymen for failing to live up to the high moral norms of their own past, the norms themselves could not be derived from tradition, custom or religious text. 'It was good to swim in the waters of tradition but to sink in them was suicide' (CW 27:308) while 'to respect a tradition even when it becomes tyrannous spells not life but death and it should be discarded' (CW 38:89). Thus, Hinduism was hemmed in by many old customs, some of which were praiseworthy but the rest were to be condemned (CW 14:75). The *Ramayana* and the *Mahabharata* had logical and analytical truth but were not to be taken literally nor treated as historical record (CW 25:335; CW 85:82). Gandhi's belief in Hindu scriptures did not require him to accept every word and every verse as divinely inspired, and he declined to be bound by any interpretation, however learned it might be, if it was repugnant to reason or moral sense (CW 21: 246). Even the *Vedas* were not exempt. 'No matter what is credited with Vedic origin if it is repugnant to the moral sense it must be summarily rejected as contrary to the spirit of the Vedas and *perhaps what is more* as contrary to fundamental ethics' (CW 41:496, italics added). Gandhi had great respect for other religions, as he had for his own, and often quoted from the Bible or the Quran to make a point. Yet they too were subject to the same judgment: 'I reject any religious doctrine that does not appeal to reason and is in conflict with morality' (CW 18:73). Because Gandhi often used religious terminology (a 'saintly idiom' as it has been called) in his speeches and writings the critical, individual and rational nature of his approach to religion has sometimes been missed (cf. Iyer 1973). Because it was only individuals who reasoned, had moral sense and exercised moral choice, individual conscience remained for him the ultimate court of appeal. Nation and society were not conceptually 'prior' to the individual members of the aggregate. Rather, the morality of a nation depended on that of individuals. 'If the individuals who constitute a nation do not observe moral principles, how can the nation become moral?' (CW 8:372). And, similarly, 'if the individual ceases to count, what is left of society?' (CW 73:93). Clearly, Gandhi did not subscribe to a deterministic view of human action, either of the historical or the sociological kind. For him 'ultimately, it is the individual who is the unit' (CW 85:32–3).

Gandhi also shared with the mainstream economic tradition a consequentialist approach to choice. For him as for the economists the assessment of consequences of various alternative courses of action is always the proper basis for choosing between them. There is one important difference: Gandhi usually interprets consequences in broader terms than the economist is apt to do. For Gandhi, they include moral as well as strictly economic effects and effects on others as well as on oneself. Nevertheless, it is to consequences that he looks rather than to any one over-riding moral principle in terms which every alternative can be assessed, for 'it is not possible to enunciate one grand principle and leave the rest to follow of itself (CW 88:59). A recurrent theme in Gandhi's writings is that life is not one straight road. 'There are so many complexities in it. It is not like a train which once started, keeps on running' (Nanda 1985:146). Nor can one climb the Himalayas in a straight line (CW 14:515–16). As a pluralist he believes that in any actual choice a number of different moral principles are usually involved and there could be conflict between them. '(But) one's life is not a single straight line; it is a bundle of duties very often conflicting. And one is called upon continually to make one's choice between one duty and another' (CW 28:434). The choice is often far from clear. 'Relative *dharma* does not proceed on a straight path, like a railway track. It has on the contrary to make its way through a dense forest where there is not even a sense of direction' (CW 41:449). Looking at consequences helps us in finding a direction.

CONSUMPTION BEHAVIOUR: THE LIMITATION OF WANTS

The concept of 'limitation of wants' is a typically Gandhian contribution to the theory of welfare economics. This states that an individual's welfare is best achieved not, as economic theory suggests, by attempting to maximise the satisfaction of a multiplicity of desires subject only to the prevailing budget constraint but rather by reflecting on his desires and trying to choose between them. The claim is supported by arguments bearing on the relationships between desire, satisfaction, happiness and welfare. While economic analysis often regards these more or less as synonyms, according to Gandhi they are quite distinct concepts.

First not all kinds of happiness contribute to human welfare. That drink or drugs can make people happy for a while is not, for example, a relevant consideration for policy (CW 26:175–6). Second, not all kinds of desire-satisfaction contribute to happiness. Primarily this is because an individual's desires for goods and services do not form a fixed set

such that their satisfaction would make the individual happy: ‘We notice that the mind is a restless bird; the more it gets the more it wants and still remains unsatisfied’ (CW 10:37).

Multiplying one’s daily wants in this fashion merely makes a person a slave to an unending sequence of desires, and there is no slavery equal to slavery to one’s own desires (CW 73:94). Such a process does not lead an individual to any sustainable steady state consumption path. Those who are in the mad rush to multiply wants, thinking that this will add to their real substance, are mistaken. On the contrary, self-indulgence and the ceaseless multiplication of wants hamper one’s growth because they are erosive of contentment, self-respect and peace of mind. And it is from these that one’s long-run happincess can be found, not just from obtaining what one likes at the moment (CW 9: 227; CW 73:94; CW 83:413). And what is true for the individual is true also for society (CW 73:94). Indeed, individuals may be impelled towards unlimited wants not only by their own desires but also by the prevailing social ethos. In modern Western society, states Gandhi, the basis of culture or civilisation is understood to be the multiplication of all one’s wants.

> If you have one room you will desire to have two rooms, three rooms, the more the merrier. And similarly you will want to have as much furniture as you can put in your house, and so on endlessly. And the more you possess the better culture you represent or some such thing!
>
> (quoted in Iyer 1973:384)

Gandhi regarded such a culture as flawed.

Another reason why trying to maximise desire-satisfaction may not make an individual or a society happy is that the process of trying to satisfy a multitude of wants has its own costs. Such an attempt requires the extensive use of machinery which could lead to pollution of the environment and a loss of creativity in work. Another usual characteristic is a ‘mad desire to destroy distance and time, to increase animal appetites and go to the ends of the earth in search of their satisfaction’ (*Young India,* 7 August 1927).

Typically, a country pursuing the quest will be ‘made hideous by the smoke and the din of mill chimneys and factories’ and its roadways ‘traversed by rushing engines dragging numerous cars crowded with men mostly who know not what they are after, who are often absentminded, and whose tempers do not improve by being uncomfortably packed like sardines in boxes’ (CW 13:315). Besides, in a country where everyone had a car, ‘there would be very little room left for walking’ (CW 66:355).

Such things, observes Gandhi, are held to be symbolic of material progress but 'they add not an atom to our happiness' (*ibid.:* 315). Deliberate restriction of material desires by individuals by means of 'the utmost effort' offers a more rational solution. (CW 12:389)

Another argument in favour of limiting wants turns on the adverse moral consequences of economic growth. As we have seen, at the heart of the Gandhian approach to economic issues is his belief that ethical and economic considerations are inseparable. The objective must be to bring about improvements in both the economic and the moral well-being of individuals, and thereby of society. But material progress can itself affect moral standards. These 'externalities' must be taken into account in the overall reckoning and a balance struck. Sometimes they could be of a positive kind. This is likely to be the case when there is mass poverty. 'No one has ever suggested that grinding pauperism can lead to anything else than moral degradation' (CW 13:312).

Millions of people in India live on only one meal a day. 'They say that before we can think or talk of their moral welfare we must satisfy their daily wants. With these, they say, material progress spells moral progress' (CW 13:312). Gandhi agrees with 'them'; but, he argues, what is true of thirty millions is not necessarily true of the universe. Indeed, such a deduction would be 'ludicrously absurd' for 'hard cases make bad law'.

'The only statement', suggests Gandhi, 'that has to be examined is whether it can be laid down as a law of universal application that material advancement means moral progress' (*ibid.:* 312). His answer is that it cannot: both at the level of individuals and societies, there are too many examples to the contrary. In general, Gandhi believes that material affluence beyond a point not only does not imply but actively hinders moral progress. Gandhi does not discuss whether, or how, one could determine just where the point was located but he was convinced that it does exist. For this reason, when discussing comparative standards of living of different societies, Gandhi always asked questions about moral as well as economic aspects. Neither literacy nor wealth *per se,* without a moral backing, had any attraction for him as a 'social indicator' (CW 34:9). To a correspondent who had pointed out Japan's achievements in terms of material progress and the level of literacy, Gandhi responded: 'And why are you so enamoured of the material progress of Japan? I do not know whether the material had gone side by side with the moral progress' (CW 34:9). There are echoes here of Ruskin who had written in *Unto This Last:*

It is impossible to conclude, of any given mass of acquired wealth. merely by the fact of its existence, whether it signifies good or evil to the nation in the midst of which it exists. Its real value depends on the

> moral sign attached to it just as sternly as that of a mathematical quantity depends on the mathematical sign attached to it.
>
> (Ruskin, *Works* 17:52)

The limitation of wants appeared to be a way of avoiding adverse effects of material progress.

Whichever of these various justifications of the doctrine of limitation of wants one takes as primary, they have one thing in common, namely that such limitation is not intended as a glorification of austerity but rather as an exercise in the optimisation of overall individual welfare. In taking up such a position Gandhi anticipated a basic theme of the recent literature against economic growth. Indeed, he was one of the first writers to argue explicitly and in a systematic way that non-economic aspects of welfare are important and that a single-minded pursuit of the maximum satisfaction of material wants might not lead to the best of all possible worlds. In developing this thesis Gandhi was influenced by Ruskin and Tolstoy but he had a far more positive and practical approach than his mentors.

From a practical point of view the question of what things wants should be limited to, is important. Gandhi appears to give different answers at different times. In some of his early writings he appeals to the principle of what he calls satisfying one's 'natural wants'. Each person should be able to satisfy all natural wants and no more. These are conceived as minimal, or basic, needs. One 'should make do with the fewest possible articles…and in the smallest possible quantity… no more than what is absolutely necessary to pay the body its hire' (CW 12:387). However, natural wants will vary from one individual to another depending on metabolism. If one person has a weak digestion and so requires only a quarter pound of flour for his bread and another needs a pound, the former's natural want will be correspondingly lower. Natural wants also vary with climate. 'Fiery whisky in the north of the British Isles may be a necessity, it renders an Indian unfit for work or society. Fur coats in Scotland are indispensable, they will be an intolerable burden in India' (CW 21:546).

Some natural wants, according to Gandhi, could only be specified at the village, rather than the individual, level. To this category belongs transport and sanitation:

> The roads should be so scrupulously clean in this land of crores of barefooted pedestrians that nobody need hesitate in walking or even sleeping in the streets. The lanes should be macadamized and have gutters for letting out water. The temples and mosques should be kept

> so beautifully clean that the visitors should feel an air of tranquil holiness about them. The village should as far as possible, be full of shady trees and fruit trees in and around them. It should have a *dharamshala,* a school and a small dispensary. Washing and privy arrangement should be such as may not contaminate the air, water and roads of the village.
>
> (quoted in Ganguli 1973:50)

Elsewhere, specially in his later writings, Gandhi appears to take a rather broader view of basic 'needs'. The proliferation of material wants is still rejected as a goal. One's aim should rather be their restriction consistent with comfort, which is less narrowly interpreted than natural want. Typical of this broader outlook are passages such as the following:

> If by abundance you mean everyone having plenty to eat and drink and to clothe himself with, enough to keep his mind trained and educated, I should be satisfied. But I should not like to pack more stuff in my belly than I can digest and more things than I can ever usefully use. But neither do I want poverty, penury, misery, dirt and dust in India.
>
> (CW 66:355)

And again, 'Everyone must have balanced diet, a decent house to live in, facilities for the education of one's children and adequate medical relief (CW 83:27). For the same reason, spinners' wages should be adequate for ensuring 'wholesome and nutritious food, necessary clothing, comfortable houses and other amenities necessary for a happy home' (CW 74:279). The tiller of the soil should have 'a sufficiency of fresh, pure milk and oil, fish, eggs and meat if he is a non-vegetarian', 'adequate but not fine clothing (what would fine clothes, for instance, avail him if he is ill-nourished and underfed?)' (CW 85:97); facilities for sanitation, comfortable housing, clean drinking water, dirt-free roads and a sense of participation in decisions that affect his daily life.

More than half a century after Gandhi's death, the bill of goods that he prescribed as a minimum is still not one that the average Indian household is in a position to consume. The actual consumption of both rural and urban poor falls far short of the limits to wants that Gandhi set. One the other hand, the affluent, and even many of those not so affluent, are often engaged in a frantic display of luxury consumption in a way that Gandhi had supposed to be peculiarly 'Western'. In this perspective the limitation of wants can be seen as a means of reducing economic inequality. This aspect of the doctrine comes out clearly in some of Gandhi's later writing, for example in his statement that while

he did not want to taboo everything above and beyond the bare necessities, 'they must come after the essential needs of the poor are satisfied. First things must come first' (CW 83:27). However, it remains somewhat peripheral to the doctrine itself.

CONSUMPTION BEHAVIOUR: SWADESHI

Swadeshi means indigenous or home-grown. The *Swadeshi* movement was a mass movement to encourage people, especially those living in cities, to develop the habit of consuming Indian rather than foreign products. They were also urged in particular to wear only *khaddar,* i.e. cloth made of yarn spun by villagers using the *charkha* or spinning wheel. The movement was undertaken by the Indian National Congress under Gandhi's leadership. During the 1930s the movement became wide-spread in some parts of India.

Gandhi did not regard *swadeshi* merely in terms of political expendiency but sought to justify it by moral principles. The first relevant principle here is that of neighbourhood. One has a moral duty to help one's neighbours. While it is true that we have duties to all humankind, the duties we owe to different segments of humankind are not of equal importance. There is a hierarchy of duties based on the degree of proximity. Individuals' service to country and humanity consist in serving their neighbours. They cannot starve their neighbours and claim to serve distant cousins in the North Pole (CW 16:30), for one must not serve one's distant neighbour at the expense of the nearest (CW 26:278). This was the basic principle of all religions and of 'true and humane economies' (CW 16:30).

The neighbourhood principle has a direct consequence for the interpretation of *swadeshi,* namely that local products should be preferred. Inhabitants of Bengal should only consume cloth made in Bengal in preference to substitutes imported from more distant parts. This was so whether the substitute concerned came from Manchester or Japan or Bombay or Ahmedabad (CW 22:316; CW 23:324). 'If Bengal will live her natural and free life without exploiting the rest of India or the world outside, she must manufacture her cloth in her own villages as she grows her corn there' (CW 28:428). For the same reason, by consuming cloth or *ghee* made in Calcutta rather than those made locally the people (of Porbander) were being 'chained with fetters' (CW26:173).

Between countries, the neighbourhood principle translates as patriotism. It is sinful to eat American wheat while a neighbouring grain dealer starves for want of custom. An individual's preference-

ordering over commodity-bundles should be guided by patriotism. 'The law of each country's progress demands on the part of its inhabitants preference for their own products and manufactures' (CW 40:435). For Indians, there is an obligation to use Indian-made things whenever they are obtainable, even though they may be inferior to foreign articles. For example, India produces a sufficient quantity of leather. It is therefore my duty to wear shoes made out of Indian leather, even if it is comparatively dearer and of an inferior quality, in preference to cheaper and superior quality foreign leather shoes. For the same reason products of Indian textile, sugar, or rice mills 'must be preferred to the corresponding foreign products' (CW 58:294).

Comparisons of price or quality are not relevant for the kind of consumer's choice decision Gandhi is talking about, but patriotism is. 'We attend flag-hoisting ceremonies and are proud of our national flag. Let me tell you our pride has no meaning if you do not like things made in India and hanker after foreign ones' (CW 62:324).

If a particular commodity is not made in India at all, the patriotism argument ceases to apply.

> I would regard it as a sin to import Australian wheat on the score of its better quality but I would not have the slightest hesitation in importing oatmeal from Scotland if an absolute necessity for it is made out because we do not grow oats in India.
>
> (*Young India,* 15 November 1928)

For the same reason the argument did not apply to English lever watches, books or surgical instruments (CW 21:43; CW 25:475; CW 26:279), Japanese lacquer work (CW 21:43), Austrian pins and pencils or Swiss watches (CW 26:279).

While this argument applies to *all* home-grown products, Gandhi singles out the products of village industry for special attention. Within that cateogry *khaddar* claimed pride of place. Indeed, the *Swadeshi* movement came to be regarded primarily as a means of encouraging consumers to wear *khaddar.* Accordingly, people, especially towns-people, were asked to buy *khaddar* in preference to mill-made cloth and to boycott foreign cloth altogether. It was specifically the use of foreign cloth that Gandhi sought to prevent, not just British cloth, and not all foreign goods, which he argued would be racial, parochial and wicked (CW 21:42–3).

Gandhi's identification of *swadeshi* with village industry, and with hand-spinning in particular, was based on a two-fold argument: that the urban population of India owed a special moral duty towards the

villages, and that this duty would be best discharged by providing a market for village products and above all for hand-spun cloth. The first part of the argument is a logical consequence of the principles of neighbourhood (there are few towns or cities in India that are not surrounded by villages) and patriotism (most Indians *are* villagers). Gandhi sought to support it further by introducing another moral principle, that of historical justice. Both economic and moral standards in the villages had declined through long neglect. City people as a whole were partly to blame. Reparation had to be made. 'We are guilty of a grievous wrong against the villagers and the only way in which we can expiate it is by encouraging them to revive their lost industries and arts by assuring them of a ready market' (CW 60:256). We must, urged Gandhi, think of our household consumption requirements in terms of 'rural-mindedness', which was 'in consonance with the true economics of our country' (CW 60:256). The second part of the argument had more to do with standard economic analysis.

Spinning was a solution for rural unemployment. 'The whole scheme of *khadi* rests upon the supposition that there are millions of poor people in India who have no work during at least 4 months in the year' (CW 60:275). Around three-quarters of the Indian population, who were agriculturists tilling their own land, belonged to this category. Even in a normal year, because agricultural work was seasonal, they remained idle for a third of the year or more. This, Gandhi believed, was the principal cause of their endemic poverty. Their normal life was lived on the border-line of starvation. If there was crop failure or famine, the extent of involuntary unemployment became much greater and many of them died of hunger and disease (CW 21:391; CW 28:11). For the 'semi-starved' but partially employed millions, spinning provided a means of part-time employment as well as an insurance against famine (CW 26:350; CW 59:129). Thus, Gandhi saw spinning as a supplementary industry for agriculture rather than as a means of employment for village artisans (CW 61:232).

Why, one might ask, choose spinning, rather than some other subsidiary occupation for agriculturists? Gandhi's answer to this was strictly pragmatic. Spinning had long been practised by villagers in the past. It required only a very simple and low-cost implement and little technical knowledge or skill. It could be easily learnt, did not require too much attention, could be done at odd moments and, for these reasons, was suitable as part-time employment for masses of rural people. Neither cattle breeding nor weaving, which had been suggested as possible alternatives to spinning as a supplement to agriculture, enjoyed these advantages, even though they were more remunerative

(CW 20:337; CW 32:32–4). Spinning was 'the easiest, the cheapest and the best' (CW 16:336). Again 'the test of *swadeshi* was not the universality of the use of an article which goes under the name of *swadeshi* but the universality of participation in the production or manufacturing of such article' (CW 31:11). Judged by this test, spinning had a potential unmatched by other contenders.

That cotton spinning was a specific remedy for agricultural unemployment also implied that it was not recommended for universal adoption. It was not, for example, meant for individuals who already had more remunerative employment (CW 28:135; CW 32:35), such as urban workers in textile mills (CW 28:227). It could not work in a district or region which did not have large numbers of people with idle hours at their disposal (CW 30:275). Gandhi neither contemplated nor advised the abandonment of a single, healthy, life-giving industrial activity for the sake of hand spinning (CW 30:454). On one occasion, he found that a number of women had been spinning who were not without occupation or means of living. 'Perhaps they spin in response to our appeal and because they realize it is for the good of the country' (CW 30:386). Nevertheless, Gandhi remained firm in his resolve that their spinning should stop, 'for the *charkha* movement had not been conceived with such people in mind but only for able-bodied people who were idle for want of work' (CW 30:386). The operative principle was quite clear: if there were no crises of semi-unemployed people there would be no room for the spinning wheel (CW 30:454).

Gandhi's pre-occupation with the need to find a subsidiary occupation for farmers can be properly understood only if certain other considerations are kept in mind. The first is his view that the possibility of bringing about improvements in agricultural production itself was very limited. Because an extremely high percentage of cultivable land in India was already under cultivation, there was little scope for increasing the agricultural area. Also, if agriculture was to provide the sole means of livelihood, one acre was estimated to be the minimum viable area for supporting a household (CW 31:462). In these circumstances, extension of cultivation was not a plausible means of bringing about economic development in India.

To a number of nationalist economists, including Gandhi's own political mentor, G.K.Gokhale, improving the productivity of land already under cultivation did appear to be a promising solution. Towards this end they advocated concerted efforts, especially by government, to expand irrigation facilities so as to make farmers less dependent on the vagaries of rainfall and also to encourage them to adopt higher-yielding seeds and improved agricultural practices. Gandhi

did not take up this line of argument, because of his belief that proposals for agricultural improvements were 'chimerical' and not immediately available (CW 32:25) a belief he later came to modify:

> Till now I believed that improvement in agriculture was impossible unless we had the administration of the State in our own hands. My views on this are now undergoing modification. I feel that we can bring about improvements even under the present conditions so that the cultivator may make some measure of profit from the land even after paying his taxes…The time has come to pay attention to agriculture.
>
> (CW78:179)

However, Gandhi continued to oppose the 'industrialization' of agriculture by large scale use of mechanised techniques which were not only contrary to the kind of village society he wished to bring about, but would also mean 'trading in soil-fertility for the sake of quick return' (CW 85:97). This, he thought, would prove to be a disastrous short-sighted policy resulting in virtual depletion of the soil (CW 85: 97). Without such innovation, however, it is doubtful whether agricultural productivity in India could be increased significantly.

The limitation of wants and *swadeshi* both rest ultimately on the concept of ethical preferences. People should seek not simply to maximise satisfaction of self-interested desires subject to a budget constraint, but to achieve the long-run goals both of individual happiness and of helping others. The problem is that people's actual preferences may differ from their 'ethical preferences'. If Gandhian economics were taken as relating only to an ideal economic order, the difference would not much matter. However, that is not my reading. Gandhi himself was much concerned about the difference between the actual preferences of urban Indians, especially in the matter of clothing, and what he thought their ethical preferences should be. He was not, however, entirely consistent in his analysis. In his more optimistic moments he appeared to believe that a 'true and national' taste for *khaddar* (i.e. an ethical preference) was already there in a latent form and hence that demand was likely to lag only briefly behind supply. The use *of khaddar* itself 'revolutionizes our tastes' (CW 18:276). All that was necessary was to 'revive' the national taste for *khaddar* 'and you will find every village a busy hive' (CW 32:26). More often he seemed unsure: '*Khaddar* has yet to become popular and universal' (CW 24: 101) or even despondent: '*Khadi* has not caught the fancy of the people' (CW 26:186). After an initial spurt the demand for handspun cloth failed to show any dramatic rise. Unsold stocks began

to accumulate in parts of the country where efforts to increase production of handspun cloth in the villages had been a success. Gandhi's conclusion was that *khadi* needed 'a great deal of propaganda' (CW 25:578). After all, that was how all goods were sold. Textile mills 'had their own peculiar agencies and methods for advertising their wares' (CW 24:406). In his presidential address to the Indian National Congress in November 1924, Gandhi criticised the proposition 'that supply follows demand'. Appropriate means of persuasion were necessary to encourage the consumption of *khaddar*.

Advertising campaigns were undertaken by the Congress and its agencies in favour of *khaddar*. Wearing it was made a prerequisite for membership of Congress. Exhibitions of village handicrafts were arranged to provide information to townspeople. Gandhi himself addressed mass meetings and wrote in the press in favour of *khaddar*. 'We', he declared, 'are the salesmen of *swaraj'* (CW 25:578). The urban middle classes were particularly targeted. The 'thinking portion' of the population had to give a lead; for '*Khaddar* which has to find a market must command preference among enlightened men' (CW 24: 101). That remained the favoured strategy, with 'the buying middle class at the one end and the manufacturing poor class at the other' (CW 32:60). Some attempts were also made to increase efficiency in production and marketing and improve the quality of the product. Much to Gandhi's disappointment, none of these measures succeeded in bridging the gap between ethical preferences and market demand. At an early stage of his campaign for *khaddar* Gandhi wrote somewhat wistfully about Queen Elizabeth I, who had prohibited the import of soft cloth from Holland, who herself wore coarse cloth woven 'in her own dear England' and 'imposed that obligation upon the whole of that nation' (CW 26:186). Gandhi did not however aspire to such an option for himself. Sales talk was permissible, force never was. 'We do not want to spread *khadi* through coercion. We want to do our work by changing people's sense of values and habits' (CW 74:279). But this was not enough for his cause to succeed.

TECHNOLOGY, INDUSTRIALISATION AND THE SCALE OF PRODUCTION

The central concern of Indian economic thought since Ranade had been the problem of industrialisation. Different views were held on what constrained industrial development in India. For some it was economic drain. Others emphasised the lack of trained labour, credit facilities and entrepreneurial traditions. Yet others put the blame on the government for

its failure to provide encouragement to Indian industry. All agreed, however, that industrial development was the long-run solution to poverty and famine. They agreed as well that the development of manufacturing industry on modern Western lines was desirable. Indeed, most Indian economic writing from the last decade of the nineteenth century onwards was concerned with how to speed up this process. Gandhi, on the other hand, did not regard industrialisation as a goal that India should adopt. The overall vision which led Gandhi to his doctrines of the limitation of wants and *swadeshi* also led him to oppose modern industrial development. The use of machinery and large scale production in urban centres were, he thought, to be avoided as far as possible.

We begin by looking at Gandhi's views on machinery. According to him the three essential characteristics of machinery are the following: Firstly, it displaces human or animal labour instead of supplementing it or merely increasing its efficiency. Secondly, unlike human labour there is no limit to its growth and expansion. Thirdly, it appears to have a law of its own, which leads not only to labour being displaced but to it being displaced at an ever increasing rate. This occurred not because such displacement was considered by the users of machinery to be socially or economically desirable, but as a consequence of the nature of technological progress *per se.*

Gandhi's opposition to modern, machine-based industrial development is a natural consequence of his characterisation of machinery itself. 'I am against machines just because they deprive men of their employment and render them jobless. I oppose them not because they are machines, but because they create unemployment' (CW 87:326). The answer to the question, discussed in classical political economy since the time of Ricardo, of whether machinery leads to unemployment, was, for Gandhi, self evident. 'If one machine does the work of a hundred men, then where are we to employ those hundred men?' (CW 88:213). Now, one could argue that workers thrown out of work by the introduction of improved machinery would find employment elsewhere. Gandhi was perfectly aware of this argument (see CW 48:166). However, he rejected it, firstly because opportunities of employment were, in his view, fairly limited and secondly, because the division of labour resulted in workers having very specific skills, which meant they could not easily be re-employed elsewhere in the economy (CW 48: 166). The tendency of machinery to throw workers out of their jobs was, Gandhi believed, a general one which operated everywhere, but its consequences were particularly grave for a country such as India with its huge population. The proliferation of mechanised industries

in such a society would create large scale unemployment with horrendous social effects.

Gandhi's second main argument against the pursuit of industrialisation by means of machine-based production was that it would concentrate production and distribution in the hands of the few (CW 48: 167). More specifically, it would lead to further encroachment of the cities on the villages, making rural people even more dependent on the cities than they already were. Gandhi's vision of village *swaraj* could never be achieved through such a process. Because industrial production would be concentrated in a few urban centres, the economic as well as the political power of the urban élite would be strengthened at the expense of the masses of the villagers. Mass production in its usual sense, that is production by the fewest possible number through the aid of complicated machinery (CW 48:166), could not serve the interests of the masses themselves. Gandhi's solution was production *by* the masses through self-employment 'It is mass production in people's own homes. If you multiply unit production a million times would it not give you mass production on a tremendous scale?' (CW 48:166). Distribution could be equalised only when production was localised, in other words when distribution was simultaneous with production. Furthermore, when production and consumption were both localised the pursuit of economic growth for its own sake, regardless of the consequences, would be avoided; there would be no temptation to speed up production 'indefinitely and at any price'.

Gandhi's opposition to the use of machinery was neither total nor all inclusive. In a way, his objection was to industrialisation in the sense in which it is usually understood rather than to the use of machinery as such. 'I am not against machinery as such but I am totally opposed to it when it masters us' (CW 64:118). However, 'every machine that helps every individual has a place' (CW 85:33). His favourite example of a helpful machine was Singer's sewing machine which supplemented human labour and increased its efficiency but did not dispense with the labour itself. Another was surgical instruments. Not only did he approve of such lifesaving appliances but also of the complicated machinery used for making such appliances, for here such machinery was absolutely essential. As he said 'we want to cultivate the hand process to perfection but where it is found to be absolutely necessary let us not hesitate to introduce machinery' (CW 41:511). Yet another example is sanitation. Asked by a correspondent whether, because of his dislike of machinery, he opposed the adoption of flush toilets, Gandhi replied:

> where there is ample supply of water and modern sanitation can be introduced without any hardship on the poor, I have no objection to it, in fact it should be welcomed as a means of improving the health of the city concerned. At the moment it can only be introduced in towns.
> (CW 85:239)

A more important exception is the case of public utilities which could not be undertaken by human labour. In such cases Gandhi would approve of mechanised modern techniques. However, he would like them to be regarded as key industries to be owned and operated by the state in the public interest. Thus, such cases are to be treated as exceptional.

Gandhi remained, however, totally committed to his opposition to extensive use of machinery for the production of basic necessities. 'For food and clothing I would be dead against industrialisation' (CW 48: 385). He maintained this position to the end, strongly opposing the use of machinery for grinding corn, manufacturing cloth or ploughing the land (CW 88:16). If Gandhi were prime minister of India he would stop all machine driven ploughs and flour mills and restrict the number of oil pressing factories. He might perhaps not destroy the existing textile mills but certainly would not help them and in any case would not permit new ones to be set up *(ibid.).* Ideal villages which are self reliant with regard to food, which have not a single flour mill and in which the residents grow all the cotton they need and manufacture their own cloth, right up to the stage of stitching garments in their own homes, should, he stated, be awarded prizes and exempted from taxes.

Some have suggested that he was not really opposed to the use of machinery but only to its mis-use. Gandhi himself complained in various writings that his opposition to machinery was misunderstood (e.g. CW 85:329) for he was not against machinery as such (cf. CW 64: 118). Similarly, he observes that 'machine power can make a valuable contribution towards economic progress' (CW 87:249). Nevertheless, the role that he ascribed to machinery in the process of industrial development was a very limited one. 'It is said that now India is going to be industrialised. But industrialisation of my conception has to be carried out in the villages with the *Charkha* plying in every home and cloth being produced in every village' (CW 88:84). Essentially this is a vision of self-employed villagers producing their subsistence, including food and clothing, by manual labour, using very simple tools and implements. This is very different from industrialisation. He did, it is true, accept that some large scale private industry would continue, for example in the production of cotton textiles. Trusteeship (which is the theme of the next section) would help ameliorate its ill effects.

Gandhi's ideas on machinery are closely linked to his concept of *swadeshi*. Neither has had any significant effect on economic policy. Developing countries, including India in particular, have not chosen to adopt village industries as an alternative to modern industrialisation. Indirectly, however, Gandhi's ideas about technology have had some influence by providing a warning that mechanisation on Western lines may not necessarily be the optimal solution for countries with a very different resource-endowment. Instead, countries with plentiful labour and relatively little capital might benefit by concentrating on light industries and on labour-intensive techniques for producing their products. In this sense his ideas may have played some part in encouraging the adoption of what has been called intermediate, or 'appropriate', technology in highly populated but capital-poor developing countries.

TRUSTEESHIP AND INDUSTRIAL RELATIONS

Gandhi's theory of trusteeship was developed as an alternative to doctrines of socialism and communism (the two words are used more or less interchangeably in Gandhi's writings) which started becoming popular in India following the Russian revolution of 1917. These doctrines, wrote Gandhi, had brought to the forefront the question of what 'our' attitude towards the wealthy should be (CW 69:219). He took socialist doctrine to mean essentially that the property of the rich —princes, millionaires, big industrialists and landlords—should be confiscated and they should be made to earn their livelihood as workers. Gandhi disagreed. All that one could legitimately expect of the wealthy was to hold their riches 'in trust' and use them for the service of society as a whole. 'To insist upon more would be to kill the goose that laid the golden eggs' (CW 79:367).

The rationale of trusteeship was that everything on earth belonged to and was from God. If an individual had more than his 'proportionate' share of wealth, or talent, he became a trustee of that part for the people as a whole. The rich should therefore use their talents to increase their wealth, for the sake of the nation. Trusteeship, thus, was a form of moral responsibility but it was quite different from either charity or benevolence and in a way it was an alternative to them. 'If the trusteeship idea catches, philanthropy as we know it will disappear' (CW 76:9).

Trusteeship is, by nature, voluntary. The wealthy should come to accept their role as trustees. In the long run trusteeship could also be institutionalised, leading to what Gandhi described as 'statutory trusteeship'. A trustee should be able to nominate his successor (CW

83:7), for legal ownership would still be vested in the trustee and not in the state. ‘It is to avoid confiscation that the doctrine of trusteeship comes into play, retaining for society the ability of the original owner in his own right’ (quoted in Ganguli 1973:277). However, the trustee’s choice of a successor would be subject to conditions which would serve both as a check on the individual’s choice and as a signal of social approval. Thus, a proprietor who held his property as a trust could not pass it on to his children by inheritance unless the latter agreed to become trustees. If they were not prepared for this, the owner should nominate some other person (Bose 1974:24).

The concept of trusteeship implied among other things that industrial relations should be built on cooperation rather than conflict. The mill owner should stop looking on labour simply as a means of earning profit, but rather as partners in a common enterprise. This implied in particular an obligation on the part of the employers not only to pay a living wage but also to ensure a clean working environment and provide facilities for cheap nutritious food, sanitation and elementary education for workers’ children. But trusteeship implied obligations for workers, too. In the prevailing system of industrial relations, while the capitalists tried to obtain maximum work with minimum payment, the workers hit upon various tricks whereby they could get the maximum pay for minimum work. The result was that a rise in wages did not mean an improvement in efficiency. When a system of trusteeship came to prevail, the mill hand would stop nursing ill will towards his employer and come to regard the mill in which he worked as his own. Such an approach had economic as well as ethical merit for if it came to be accepted, strikes and lockouts would become infrequent, productivity would increase, and the costs of maintaining a ‘heavy supervisory establishment’ to keep workers in order, would no longer be required (CW 36:289). Trusteeship could also lead in a natural way to profit-sharing and to workers’ participation in management.

In bringing about a change from the existing system of industrial relations, based on a conflict of interest, towards one based on trusteeship, it was enlightened industrialists who had to take the lead. Gandhi himself did not regard capital to be the enemy of labour and in principle held their coordination to be ‘perfectly possible’ (CW 58:245). However, as in most things in life, an ideal could only be realised *approximately.* ‘Absolute trusteeship is an abstraction like Euclid’s definition of a point, and is equally unattainable. But if we strive for it, we shall go further in realising a state of equality on earth than by any other method’ (quoted in Ganguli 1973:271). Asked, towards the end of his life, if he knew of any industrialist who had fully lived up to the ideal of trusteeship, Gandhi replied, ‘No, though some are striving in that direction’ (CW 90:521–2).

And while the success of this, as of any, enterprise depended on voluntary participation rather than coercion, Gandhi believed some sanctions were legitimate if some industrialists simply refused to behave as trustees, even after being given every chance. Different kinds of sanction could be applied, depending on circumstances. One was to bring the force of public opinion on erring industrialists to mend their ways. This could be expressed by direct action from below, a form of what Gandhi called non-violent non-cooperation. If that too failed to persuade the owners of capital to act as trustees, depriving them of their possessions by the exercise of state power might ultimately become necessary, 'with or without compensation as the case demanded'. However, by and large, peaceful and rational conversion to the principle of trusteeship would remain the norm.

Gandhi put forward two main arguments in support of his belief that trusteeship was a better way of dealing with problems of inequality and exploitation than communism. The first argument was based on the unequal distribution of ability. Gandhi believed that 'although we are all born equal, that is to say, that we have a right to equal opportunities, nevertheless we have not all the same abilities' (CW 48:241). Consequently, it was natural that some of us should be more fitted than others to acquire material gain. Entrepreneurial ability was scarce and, properly harnessed, could be socially valuable. If the rich were deprived of their wealth ('This is known as Communism', CW 87:284) and made to earn their living as manual workers 'Society will become poorer, for it will lose the gifts of a man who knows how to accumulate wealth' (CW 72:400; cf. CW 87:284). Depriving society of the services of such capable people would not be in the interests of the country, especially if the country itself were poor and underdeveloped. Trusteeship, on the other hand, tries to preserve such abilities while utilising them for the wider interests of society. Accordingly, Gandhi's advice to the eldest son of a prominent industrialist who had been a friend and political ally, was that if he was already engaged in business he should remain so, but he should use fair means and be a trustee (CW 75:357–8). Secondly, Gandhi justified trusteeship by the principle of non-violence. The communist alternative of dispossessing the wealthy of the means of production by confiscating their property violated that principle. The Soviet communist system, even though it had some good aims, such as the elimination of exploitation of the poor by the rich, was based on the use of force which was unethical, and because of this Gandhi had strong doubts about its final success (CW 48:244).

Gandhi has been accused of double standards on this point, for as we have seen he too approved of state ownership of industry if private owners failed to accept a trustee role. However, as elsewhere, he was

prepared to accept the lesser of two evils. Private industrialists, he thought, should be encouraged to cooperate with labour in a spirit of partnership and, given a chance, perhaps many would. If trusteeship did not work a *minimum* of state ownership would be necessary as a last resort but Gandhi, unlike the communists, did not regard this as either inevitable or good in itself. He had the greatest fear of the power of the state, which while apparently doing good by the minimisation of exploitation can do the greatest harm to mankind by destroying individuality, which lies at the root of all progress (Ganguli 1973:272). Elsewhere he describes the state as representing violence in a concentrated and organised form. 'The individual has a soul but the State is a soulless machine' (CW 59:317). In his opinion 'the violence of private enterprise is less injurious than the violence of the State' (*ibid.:* 317). Coercion by the state could only be a necessary evil and trusteeship remained the preferred alternative.

There was one form of state intervention with property which Gandhi did *not* regard as coercion, namely, high rates of wealth or inheritance taxes.

> Riches have not yet been sufficiently taxed. In this, of all the countries in the world, possession of inordinate wealth by individuals should be held as a crime against Indian humanity. In England they have gone as far as 70 per cent of the earnings beyond a prescribed figure. Why should there not be death duties?
>
> (quoted in Ganguli 1973:273)

Gandhi fails, however, to recognise that the argument based on the scarcity of entrepreneurial talent which he had used against communism, applied in some measure against such 'democratic socialist' methods as well.

CHARITY, LEISURE AND THE SANCTITY OF WORK

We begin this section by discussing Gandhi's views on charity. As we have seen, he rejected the view that individuals' economic behaviour either was, or should be, guided solely by self-interested preferences. One would therefore have expected him to be favourably disposed towards charity, which economists themselves regard as an exception to their rules; it is the classical example of non-self-interested behaviour. Gandhi's view of charity is more complex, however.

In an early piece of writing (CW 14:90–1) Gandhi quotes in full a well-known passage from the New Testament, 1 Corinthians, 13, which extols the virtue of charity. Gandhi's own writings show quite clearly

that he had considerable doubt whether what was usually regarded as charitable action represented a virtue at all. He seems to have taken his cue from two particular statements in the biblical passage he referred to, which suggested that the practice of charity must itself satisfy some other norms in order to qualify as 'true charity'. 'And though I bestow all my goods to the poor and though I give my body to be burned, and have not charity it profiteth me nothing' and again, 'charity vaunteth not itself, is not puffed up, doth not behave itself unseemly…'. Gandhi, too, did not approve of charity irrespective of consequences. Indeed he took it for granted that charity need not be a good thing. 'There is no reason to believe that charity *per se* is meritorious' (CW 28:15). In order to judge whether a particular charitable action is good or bad one must look to its expected consequences for recipients, donors and society at large. The effects that Gandhi was most concerned with were those on the incentive to work. For this reason, the idea of giving free meals to a healthy person who had not worked for it in some honest way was particularly abhorrent to him. Giving free meals to the poor had long been an honoured Hindu custom. It was known as *Sadavrata,* which literally means 'the constant task'. Some European authors had written in praise of *Sadavrata,* saying that the Indians had developed a system of feeding the poor that was self-organised, providing an alternative to the work-house.

Gandhi would have none of this. The system, he maintained, had done no good to India. Indeed, it was an evil custom which had degraded the nation and encouraged idleness, hypocrisy and crime. If food were available without effort, those who were habitually lazy would remain idle and become poorer (CW 28:7). Philanthropic businessmen in contemporary India who sought to acquire religious merit by the practice of *Sadavrata* were actually committing a grievous wrong.

During a visit to Calcutta Gandhi came across hundreds of hungry people being provided with a free meal by a private philanthropist. The sight appeared to him: 'neither ennobling nor honourable to those who had organised the meals for the hungry people of Calcutta from day to day' (CW 27:464–5). Perhaps the donors did not know what they were doing but 'were ignorant of the irreparable harm they were doing to India by this misplaced benevolence' (CW 27:465). Such misplaced charity, according to Gandhi, added nothing to the wealth of the country, whether material or spiritual and only gave a false sense of merit to the donor. For the same reason, he exhorted Parsi millionaires of Bombay not to give all their money to the poor, for did they want to

keep those crores of people dependent on their *Sadavratas*? (CW 20:449).

Gandhi allowed an exception to this condemnation of *Sadavrata.* It was commended for the lame, the crippled and those who were disabled by disease, for such people could not work. Even in this case, however, relieving hunger was not the only objective. Preserving dignity and self-respect was no less important. 'Even the disabled should not be fed with thousands of people watching them. There should be a proper place, private and quiet, for feeding them' (CW 28:8).

The able bodied poor should have no 'free lunch'. 'By their efforts, by their own work, these people should earn their livelihood and get their clothing, and they must not be taught to depend on others for their necessaries' (CW 22:44). Philanthropists who wanted to help could open institutions where meals would be given under clean, healthy surroundings to men and women who would work for them. The ideal work, believed Gandhi, would be spinning cotton, but they should be free to choose any other work that was appropriate and feasible. But the rule should be 'No labour, no meal'. The same principle applied to beggars. They should be offered work and food but if they refused to work, they should not be given food.

Those who could not work because of physical disability should be taken to institutions financed by the state, rather than left to live by begging, which only encouraged fraud. The vast majority of street beggars were mere professional idlers 'when they are not much worse', and those who have money to spare do an ill-service to those beggars and to the country by giving them money, food or clothing (CW 34: 118; CW39:345).

Gandhi's view of charity is in line with his consequentialist view of ethics. In this respect it differs from the Buddhist view which regards the act of alms-giving as conferring merit on the donor irrespective of consequences. It is also in keeping with Gandhi's ethical 'pluralism'. There are a number of different moral principles which could conflict: the principle of helping others justifies charity to beggars; the principle of self-reliance requires beggars to work. Gandhi's solution is a compromise between the two, an exercise in practical reasoning from ethical principles.

As was usual with Gandhi, his remarks on charity were meant to apply primarily to a specifically Indian context. They have, however, a more general aspect. Governments of Western countries are under increasing economic pressure to reform their existing schemes of welfare payments. Proposals have recently come up, for example, to link the eligibility of the unemployed to receive a dole to their

willingness to work if jobs are provided. Such proposals have been attributed to a narrow ‘economic’ outlook and criticised on moral grounds. Gandhi would probably have approved of them but for moral rather than strictly economic reasons.

Of some interest, too, are Gandhi’s view on leisure. A standard argument in the debate on the costs of economic growth has been that GNP fails to take the value of leisure into account and hence may actually lead to a lowering of the quality of life. Gandhi’s position on the role of leisure is somewhat more complex. In a properly functioning economy, he states, everyone would be in a position to enjoy a sufficiency of leisure. Village *swaraj* is described as a place where ‘everybody is a toiler with ample leisure’. On the other hand, the principle of limitation of wants applies just as much to leisure as to the consumption of goods and services. Leisure is ‘good and necessary’ only up to a point (*Harijan,* 16 May 1936). Beyond that it becomes an indulgence which is contrary to religion and ethics. Too much leisure could erode the human faculties. Whether the leisure was voluntary or involuntary, as in the case of Indian agriculturists who were unemployed for a third of the year, did not, Gandhi believed, make a fundamental difference in this regard. He felt nothing but dread at the prospect of our being able to produce all that we want, including our foodstuffs, ‘out of a conjurer’s hat’ so that we could have leisure the livelong day.

This attitude comes out also in some of his writings on machinery, which were referred to in the previous section. Industrial civilisation based on the use of machinery could enable greater output to be achieved with reduced working time, a prospect that Gandhi did not welcome. ‘I know that socialists would introduce industrialisation to the extent of reducing hours to one or two in a day but I do not want it’ (CW 66:355).

Underlying Gandhi’s ideas on charity and on leisure there is a common thread. This is the concept of the sanctity of labour and especially ‘bread-labour’, a term Gandhi borrowed from Tolstoy. This implies that every individual should earn the basic necessities, such as food and clothing, by the performance of manual labour. Even those who earn their livelihood by mental labour should do some amount of manual labour.

For Gandhi the distinction between manual and mental labour was not quite as rigidly drawn as it was for Tolstoy, for physical labour, too, provided opportunities for the exercise of intelligence. Intention and purpose were important and could help increase efficiency (CW 61: 126). Intelligent body labour was the highest form of social service,

'for what can be better than that a man should by his personal labour add to the useful wealth of his country?' (*ibid.:* 126).

Analytically, the distinction between physical and mental labour was less fundamental for Gandhi than that between work and non-work. It was the sanctity of work as such that lay at the heart of Gandhi's argument.

CONCLUSIONS

This concluding section touches on three issues, namely, Gandhi's debt to the utopian socialist tradition; the impact of Gandhian ideas on Indian economic policy; and their long-run relevance.

During the nineteenth century a number of writers in Europe, often described as 'Utopian Socialists', reacted to the evils of industrialism in much the same way as Gandhi did during this century in India. In particular, Gandhi has frequently been described as a disciple of Ruskin, whose book *Unto This Last* he translated into Gujrati. Earlier in this chapter we pointed out some of the ideas that Gandhi took from Ruskin. However, the differences between the two men are far deeper than their similarities. One basic difference concerns the role and powers of the state. While Gandhi, as we have seen, wished to restrict them, Ruskin wanted to expand them almost without limit and believed that 'government must have a degree of authority over the people of which we now do not so much as dream' (Ruskin, *Works* 10:239–40). Likewise, they differ on the role of the individual *vis-à-vis* society. For Gandhi it is the individual who counts. Ruskin, on the other hand, imputes value not to the individual as such but rather to society itself, viewed as an organic and ordered hierarchy based ultimately on 'blood and race'. Hence, for Ruskin, the natural form of government is aristocracy i.e. rule by gentlemen, the word gentleman being defined as 'a man of pure race, well-bred in the sense that a horse or dog is well-bred' (*Works* 7:343). Between the well-bred and the ill-bred 'human creature', no matter what pains be taken with their education there is as much difference as between a wolf-hound and the vilest mongrel-cur (*ibid.:* 343). The argument also provides a rationale for empire. Being 'still undegenerate in race, a race mingled of the best northern blood', the English have a right and a duty 'to found colonies as fast and far as she is able' (Ruskin's inaugural lecture at Oxford University, quoted in Bell 1978:134). Ruskin's philosophy is far removed from Gandhi's abiding concern with the individual as 'the ultimate unit'. That concern, and indeed Gandhi's ethical approach to economics itself, probably owe much more to the Buddhist than to the Utopian Socialist tradition. The

question we shall take up next is: what impact did Gandhian thought have on economic policy in India? Briefly, the answer is: very little.

Shortly after India became independent, a correspondent pointed out that although Gandhi had argued all his life in favour of 'moral' economic policies, now that the British power had quit and the national congress was governing India, he had become strangely silent. 'You write nothing against the unmoral economics of India', complained the correspondent, 'people have begun to believe that you are behind the present economic policy of the Congress government' (CW 89:144). Gandhi's reply was an admission of failure:

> Those who are in charge of the Government are my fellow-workers …If I have failed to convince them of the soundness and feasibility of the economics referred to by the correspondent, how should I expect to convince others? They do not feel that they would be able to carry the people of India with them in the prosecution of what may be summed up as the 'Khadi economies' and to renovate the villages of India through village industries.
>
> (*ibid.:* 145)

The policies which they did pursue will be described in the following chapter. Gandhi's insight that his erstwhile fellow-workers who were now in charge of the government of India did not believe in Gandhian economic policies and had no wish to put them into practice was entirely correct. So was his view that the people at large had grave doubts about their feasibility.

Economists in India had always been sceptical about the Gandhian approach. In his earlier years, Gandhi himself had sometimes shared their misgivings. 'This may prove wrong. Economists may tell us in the future that we were mistaken' (CW 25:60). Subsequently he came to distrust their advice, as is clear from a letter he wrote to a group of economists who wanted to meet him: 'Do not tell me *ex cathedra* that the whole thing is doomed to failure, as some economists have done before. Such condemnation would not impress me' (CW 68:258).

The doubts were not confined to economists alone. A Christian missionary friend of Gandhi's who was sympathetic to his moral approach to economics had asked him: 'Can you put back the hands of the clock and induce people to take to your Khadi and make them work on a mere pittance?' (CW 34:453). At the time, Gandhi remarked that this friend 'did not know his India' (*ibid.:* 453). Time has shown that perhaps, on this matter at least, his friend knew 'his India' better than Gandhi himself.

Gandhi always insisted that 'truly' ethical policies, must be practicable and should not require continuing economic loss. A solution based on village industries could avoid such loss either by cost reduction or if there was a switch in consumers' preferences towards their products. The prevailing technology of rural industries did not allow any significant cost reduction: that would require mechanisation, which was what the Gandhian strategy sought to avoid. And moral suasion, as Gandhi came to recognise towards the end of his life, was an unreliable means of bringing about changes in consumer preferences. That was why the Gandhian solution failed.

Lastly we shall consider the long-run relevance of Gandhi's economic thought. Gandhian economics came to be identified with the spinning wheel. Indian experience demonstrates that the spinning wheel is no answer to rural unemployment and mass poverty. But to bury Gandhian economics for that reason would be premature, for Gandhi's writings contain valuable insights into the development process in a rural economy. One such lesson is the importance of decentralisation. With the decline and fall of the world communist system, the notion of planning for development has come into disrepute. Traditional doctrines stating that unrestricted operation of the market mechanism is all that is required for economic development in poor countries are being revived. Those with direct experience of life and labour in village societies may find neither option satisfactory. The experience of less developed countries shows clearly enough that centralised state planning simply does not work. Yet the hazards of market failure have not vanished. Gandhi argued that a limited degree of decentralised planning was both possible and desirable, and explicitly dissociated himself from the view that the core of planning was centralisation. 'Why should not decentralisation lend itself to planning as well as centralisation?' (CW 80:352).

As we have seen, Gandhi's over-riding concern was the decentralisation of production, which was to be achieved through village industries. However, he was also opposed to price-control and rationing as food-planning techniques in independent India. 'There are enough cereals, pulses and oil-seeds in the villages of India. The artificial control of prices the growers do not understand. They therefore refuse willingly to part with their stock at a price much lower than they command in the open market' (*Harijan,* 16 November 1947). This makes price-controls economically inefficient. The moral consequences are bad too, for 'Controls give rise to fraud, suppression of truth, intensification of the black market and to artificial scarcity' *(ibid.).* The risk of a temporary price-rise appeared to him to be a lesser

evil. ‘Personally, the bogey of the shooting up of prices by reason of decontrol does not frighten me’ (CW 90:399). These remarks also remind us (once again) of the pragmatism of Gandhi’s approach to policy. Despite his moral objections to the law of supply and demand, he was not averse to using it as a basis for economic policy if circumstances warranted it, that is, if ethical and economic considerations appeared to tend in the same direction.

Secondly, Gandhi was much concerned with self-respect, a concept that is missing from the literature of development economics. For Gandhi, as for Rawls (1973:440–6) it was the most important ‘primary good’. Concern for self-respect forms a common thread running through his pleas for the limitation of wants, his doctrine of bread-labour, his reservations about charity as a virtue and his insistence on cleanliness as an important element in the standard of living. Three quarters of Indian people lived in villages, but villagers no longer had the self-respect they had once enjoyed. Foreign rule, unclean and insanitary living conditions and habits (Gandhi described the typical Indian village as a ‘dung-hill’), recurrent famines, endemic semi-starvation, enforced idleness for a third of the year, the inhuman practice of untouchability, all these had seriously eroded their human dignity and self-respect. Economic development was a means of bringing self-respect to individuals who lived in villages and thereby to village society as a whole. It was not just a matter of money: ‘You cannot bring a model village into being by the magic wand of money’ (CW 62:146). Nor was it simply a task for government. ‘The government will not succeed in cleaning seven and a half lakh villages’ (CW 16:187).

Such a perspective implies that bundles of goods and services can no longer be regarded as the only constituent elements of economic development. Goods and services *are* important. Their availability up to a basic minimum is essential for self-respect, but a sense of independence is important too. The mechanism by which the consumption of goods and services by villagers is ensured also counts, not the level of consumption alone. For this reason Gandhi disapproved of the bureaucratic devices of a paternalistic welfare state, even if they were meant to benefit villagers. They were not, he thought, conducive to the long-term goals of self-respect and self-reliance, but instead made village people passive recipients of state charity. Gandhi did not live to see the enormous expansion in local, national and sometimes international, bureaucracy in developing countries, purportedly in pursuit of the ‘basic needs strategy’ often acclaimed by development economists, but because he regarded self-respect as the most basic need

of all he would probably have disapproved. And though much progress has been achieved in techniques of feeding the hungry by private, state, and international agencies few donors have seen fit to remember Gandhi's anguished cry: 'What kind of an arrogant servant of the poor is this who rides in comfort in a car between rows of people eating?' (CW 28:7).

The attainment of self-respect is a goal of production as well as consumption activities. It is, Gandhi believed, an important issue in work-motivation. Ranade and his followers had described economic development as a process of learning by doing, but how well or how fast people actually learnt depended on the nature of their motivation. A major problem of command economies is how to motivate people to work. Self-respect arising from a sense of participation in village level work activity could provide one such motivation. That required building up a practical framework for decision-making which was village-based, which sought to increase mutual trust and consultation and to keep caste and class conflicts to a minimum. This was what Gandhi meant by decentralised planning and it represented an approach rather than a programme. 'I cannot speak with either the definiteness or the confidence of a Stalin or a Hitler as I have no cut and dried programme which I can impose on the villagers' (CW 64:71).

Nor did he believe in planning in the sense of a set of production targets to be achieved by a certain terminal date. The development process only made sense if individuals themselves had a sense of autonomy as well as of movement in the right direction. This required time and 'patient persuasion', and a recognition that freedom of thought and expression are essential for human development. 'Just as a man will not grow horns or a tail he will not become an animal with no mind of his own' (CW 73:94). Even dictators value liberty, for 'In reality even those who do not believe in the liberty of the individual believe in their own. Modern editions of Chengiz Khan retain their own' (*ibid.:* 94).

10 Independence and after

India became independent in 1947. Independence was accompanied by the partition of the country into India and Pakistan on the basis of religion, one of the largest and most murderous transfers of population in human history, and much economic devastation. The objective of Indian economic development was declared to be economic growth together with social equity. A resolution by Lok Sabha (the lower house of parliament) in 1954 went on to adopt a 'socialistic pattern of society' as its ultimate goal. This was to be achieved through planned and rapid economic growth. Parliamentary democracy and a mixed economy, with the state playing a crucial role, was to provide the institutional framework for economic advance.

During the first three Five Year Plans (1950–1–1964–5) the economy did advance. The annual average rate of growth of per capita income over the period was 1.75 per cent (compound), a marked improvement on the past. Industrial output increased at a rate of 8–10 per cent and food grains at about 3–3.5 per cent. Many believed that the Indian economy was on the verge of taking-off into self-sustained growth. This did not happen. The Green Revolution helped to sustain the growth rate of agricultural output and yield-rates per acre, though not of output per head. Industrial growth rates did not accelerate. The growth rate of per capita income continued to stagnate. It is the failure of economic planning to lead to accelerated growth that provides the context of Indian economic thought in the recent past. Because this literature is vast and wide-ranging the problem of selection was particularly difficult. Both the 'political economy' literature and technical articles on economic theory have been omitted from this review, which concentrates on economic ideas with relevance for policy. The chapter consists of seven sections: the first is on the Mahalanobis planning model, while the second discusses economists' responses to government trade and industrial policies. Section three is on the determination of

savings behaviour and section four on explanations of industrial deceleration since the mid-1960s. The fifth section deals with the measurement of poverty and the sixth with some problems related to agriculture. The final section discusses the possible bearing of past economic thought in India on current thinking.

THE MAHALANOBIS MODEL

A characteristic feature of Indian planning from the Second Five Year Plan period onwards was the concentration of public investment on capital goods production. This particular emphasis was a direct outcome of the Indian government's adoption of the so-called Mahalanobis model as a basis of planning. The purpose of the model was to determine the optimal allocation of investment between different productive sectors so as to maximise long-run economic growth in India. There are two versions of the model, one with four and the other with two sectors. The basic assumptions of both are that capital cannot be shifted from one sector to another and that foreign trade is excluded. The two-sector model deals with investment allocation between a capital goods and a consumption goods sector. The four-sector version distinguishes between two types of consumer goods, namely factory production and household production, agriculture being subsumed under the latter. It also includes a service sector comprising such things as health and education, and the capital goods sector itself. It is the two-sector model that brings out most clearly the logic of the analysis and it is this that we shall consider. Formally, the model may be described as follows:

Let I_t denote the rate of investment at time t; λ_k and λ_c the proportions of it allotted to the capital goods and the consumption goods sectors respectively, and β_k, β_c the respective output capital rates in these two sectors. Let C_t denote the consumption goods output at time t. Then, assuming capital to be the effective constraint on output and regarding investment during any period as equal to the current output of capital goods,

$$I_t - I_{t-1} = \lambda_k \beta_k I_{t-1}$$
$$C_t - C_{t-1} = \lambda_c \beta_c I_{t-1}$$

Recursive application of these relationships yields a solution for the time paths of consumption and investment and hence of their sum which is national income. The solution shows that the long-run rate of growth of output is given by $\lambda_k \beta_k$. Since β_k is regarded as an exogenously given technological parameter, the growth rate is thus determined by the value

chosen for $?_k$. The higher the proportion of investment (i.e. of the current output of capital goods) that is allocated to the further production of capital goods, the higher the long-run ('asymptotic') growth rate of output (Mahalanobis 1953; see also Bhagwati and Chakravarty 1969:5–6).

For a history of Indian economic thought, the importance of the Mahalanobis model lies not so much in its originality (the basic model had been anticipated by a Soviet economist, Feldman, in the 1920s), nor in its brilliance as a planning model (the neglect of foreign trade and the assumption that capital equipment cannot be shifted at all between sectors are fairly limiting) but rather in the fact that it provided the analytical framework for the Second Five Year Plan. Essentially, it provided a rationale for a shift in the pattern of industrial investment towards building up a domestic capital goods sector.

The Mahalanobis model has often been criticised both for being concerned exclusively with investment and for identifying investment with the production of capital goods while paying little attention to the savings constraint. Thus, Bhagwati and Chakravarty write:

> Indeed, it appears quite plausible to argue that Mahalanobis (who had just then visited the socialist countries and with whose economists he had close contact) was impressed with Soviet thinking on industrialization, with its emphasis on the building-up of the capital goods base, without full recognition of the fact that such a strategy presupposes constraints on domestic and foreign transformation which need to be empirically verified. Further it seems likely that, being a physicist by training and a statistician by practice, he directly identified increased investment with increased availability of capital goods…This probably accounts for his model in the Draft Frame of the Second Plan taking no *explicit* account of savings, whereas *economists* looking at growth inevitably started from the savings end.
>
> (Bhagwati and Chakravarty *op. cit.:* 7)

More recently Patel (1988:54) in the same vein observed 'It was valid to point out at the time—as was done at the time—that a sharp increase in the rate of saving was implicit in his model and that it may not be feasible or come about on its own'. On the other hand, development economists have perhaps assumed too readily that the rate of saving must be the binding constraint on economic growth. The savings rate in India in the recent past has not been particularly low, and during the 1980s was around 20–25 percent of national income. Perhaps Mahalanobis's implicit assumption that in Indian conditions the actual physical process of capital

accumulation was a more important influence on the growth rate than the rate of savings was not so wrong after all.

A more serious limitation of the Mahalanobis approach was the neglect of foreign trade. Even if domestic transformation possibilities are limited by the specificity of the physical capital stock, which cannot be easily moved from one sector to another, foreign trade offers an important alternative means of transformation. That alternative, too, has its problems, and it can only provide a safe escape route if the 'small country' assumption that rates of transformation through foreign trade remain constant indefinitely is satisfied. Nevertheless, the failure at this stage of India's development to emphasise the links between industrialisation and trade was a serious limitation and had unfavourable consequences. Some have explained this failure by the climate of economic opinion at the time, which favoured the closed economy assumption. Looking back Patel (*op. cit.:* 54) points out: 'The criticism that the Mahalanobis model does not take account of external trade, while valid, also applies to most such models including the Arthur Lewis model'.

In the Indian context at least this is not entirely convincing. Ranade's writings contained a coherent if informal model of industrial development, in which imports, including foreign capital and skills, as well as exports, were to play a pivotal role. But in the intensive debate on paths to industrialisation that occurred in India during the 1950s and 1960s the name Ranade was hardly ever mentioned.

Others attribute the neglect of foreign trade to 'export pessimism'. To rely on exports as a means of industrialisation for India would, it is said, have been hazardous because of the lack, and uncertainty, of foreign demand for India's exports. Actually, neither the Second Five Year Plan nor the Mahalanobis model itself sought to justify their favoured strategy by such considerations. Bhagwati and Chakravarty (*op. cit.:* 7) justly observe that 'the later justification of this strategy by alluding to "stagnant world demand" for Indian exports comes somewhat close to an *ex post facto* rationalisation'. Indeed, the Second Plan document hardly mentions the question of export earnings, whether pessimistically or otherwise. Probably, at the time, export pessimism was just not there, which is not surprising given that during the First Five Year Plan period (1951–6) the volume of exports had grown at an annual average rate of 5 per cent, and the balance of payments position was comfortable.

A deeper criticism could be made not just of the Mahalanobis model but of the whole concept of planned economic growth as it came to be accepted in India. Structural features of the Indian economy that could

limit the applicability of Keynesian analysis were not addressed. What was the precise nature of unemployment and inflation in an underdeveloped economy? How far and in what fashion could the Keynesian multiplier be expected to operate? What bearing did demand theory have for economic planning? Questions such as these were raised and discussed, with elegance and clarity, by Das Gupta in a series of papers (some of which were later reprinted in his *Planning and Economic Growth* 1965). Unfortunately, they did not claim a great deal of attention from policy makers.

INDUSTRY AND TRADE

The policy of discriminating protection had been based on the infant industry argument. From the 1930s onwards economists in India were arguing that the issue of protection be dealt with within the framework of a coordinated programme of economic development rather than on an industry-by-industry basis. Such a 'developmental' approach was adopted by the Fiscal Commission appointed by the government of India immediately following independence. The commission divided industries into two groups—(a) and (b). (a) consisted of all industries included in 'approved plans', (b) of those not included therein. The industries belonging to group (a) were further sub-divided into three categories:

1 defence and other strategic industries which had to be established and maintained on national considerations, irrespective of costs;
2 basic and key industries included in the plans which had to be given the facilities necessary for their development; and
3 other industries.

In the first two categories a Tariff Commission was to recommend the form and quantum of protection and state assistance but in all other respects they were to be subject to the same scrutiny as other industries; the Tariff Commission was expected to lay down the conditions of their protection, and to review from time to time the extent to which they were complying with these conditions. In the case of other categories, the Tariff Commission had also to examine the case for protection and state assistance. In the event, recommendations of the Tariff Commission did *not* constitute the basis of industrial policy in post-independence India. Instead, industrial policy was dominated by the Industrial Policy Resolution of 1948 and the Industries (Development and Regulation) Act of 1951 which was designed to implement that resolution. These provided a detailed and comprehensive framework for the licensing and regulation

of industrial investment and also for related questions such as pricing and distribution controls. The principal objectives of this Industrial Policy were:

1 the development and regulation of industrial investments and production according to Plan priorities and targets;
2 the protection and encouragement of 'small' industries;
3 the prevention of concentration of ownership of industries; and
4 balanced economic development of the different regions in the country, so as to reduce disparities in levels of development.

These objectives were to be achieved through direct state control. Thus, according to the Industries Act all existing undertakings in the 'scheduled' industries had to be registered with the government, and no 'new' industrial undertaking could be established, nor any 'substantial extension' effected to existing plants, without the prior procurement of a licence from the central government. By 1966 practically all manufacturing industries in the organised sector were 'scheduled' and, hence, subject to licensing. Licences were to be issued within the framework of macro-economic targets to be worked out by the Planning Commission. Imports, too, were subject to licensing and could be permitted only if the relevant government agencies had certified them to be both essential (e.g. as inputs or equipment of production) and not available domestically. There were three separate authorities: one for issuing licences, one for certifying 'essentiality', and one for 'indigenous clearance'. Traditionally, Indian opinion had favoured economic intervention by the state in order to encourage industrial growth. It was the lack of such encouragement, rationalised by doctrines of *laissez-faire,* that had been the target of economist critics of the British Raj. The economic policies of the government of independent India were far removed from *laissez-faire.* Criticisms of these policies by economists in India, which began around the mid-1960s, reflected their growing realisation that government intervention as such did not necessarily contribute to industrialisation. Such intervention had to be economically rational. The means used by government to regulate and control industrial production and trade appeared to many economists to lack such rationality, based as they were on administrative dictat rather than economic principles. In his Presidential Address to the Indian Economic Association at Baroda on 'Aspects of Trade Policy in India' Lakdawala (1964) dwelt on the divergence that had come about between the theory of economic growth and development on the one hand and that of international trade on the other.

> The assumptions of constant or increasing opportunity costs and fixed production possibilities, on which international trade theory has been based, run absolutely counter to changes in the quantity and quality of factor supplies and improvements in technology, on which development largely depends.
>
> (Lakdawala 1964:89)

One consequence of this lack of integration between them was that trade policies for development had become largely apologetic, opportunistic, wavering and inconsistent. This was particularly so in the case of India where 'trade traditions have been largely liberal and multi-lateral free trade with a fixed exchange rate has become an ingrained habit' (p. 90). Independent India had adopted the goal of planned and rapid economic development, which had led to far-reaching changes in foreign trade policies but the principles of trade theory continued to hold. The goal of planning itself and the 'broad pattern of growth' which it envisaged, Lakdawala took as given, but if planning was to succeed, it had to be efficient. This was not a characteristic of the prevailing import policies.

> What criteria should be adopted in laying down the portion of demand that should be met by domestic production in import goods? Who should apply them, and how? What industrial licensing and import control policy principles and procedures should be adopted to ensure that these industries rise to the needed level, and operate with maximum efficiency?
>
> (*ibid.:* 99)

Such questions had to be faced and answered by economic reasoning rather than dealt with *ad hoc* by bureaucratic device. According to Lakdawala the question was not just one of import substitution, which was an acceptable goal of development policy in the short-run, but how this was to be achieved. The switch from tariffs to import restriction had been accompanied with a loss of efficiency.

> The main virtue of the Tariff Commission method was the publicity which surrounded all its inquiries and its results; its quasi-judicial nature kept it apart from being involved in executive work and being unduly affected by its line of thinking. The reasons which led to a conclusion were set out in full, and anyone interested could examine them and applaud or condemn them. In the new policy, the data and the reasons are just not there.
>
> (*ibid.:* 100)

This had two important consequences. One was that lobbying by interested groups became far more important for decision-making than before. ‘In the circumstances, the first important thing for an industry or a firm is to get an industrial licence for establishment or expansion; the second is to press its claim for high import licences’ (p. 97). What later came to be described as ‘rent-seeking behaviour’ was a logical corollary.

Another consequence was a decreasing concern with the costs or efficiency of the import substituting production. In the old Tariff Commission procedure there had been some checks not only on the types of industry to be protected but also on the subsequent behaviour of firms in the protected industry. Periodical public enquiries were held. Such questions as prices and costs of production in the protected industry, the quality of product, and consumers’ satisfaction with it, were discussed regularly in the Commission’s annual reports. Under the import restriction regime such concerns ceased to be important. While, in part, the consequences described were ‘inherent’ in a situation where the profit-price mechanism was greatly regulated, steps could be taken to correct them. ‘While the distribution of scarce foreign exchange and import licences among commodities, being a question of valuation, will always arouse some controversy, their firmwise distribution could easily be made much more efficient’ (p. 109). For this purpose, suggests the author, ‘There must be frequent checks on the cost-price behaviour of import substitution industries and a certain annual increase in their productivity must be insisted upon.’ That was ‘the very logic of development’. ‘In the absence of such safeguards, with inflationary conditions where responsibility for increases in costs cannot be easily laid, and prices can be easily increased, waste and inefficiency are likely to assume alarming proportions’ (p. 109). During the following two decades, they did.

As regards exports, economic theory offered two basic principles. One was that of long-run comparative advantage.

> Which are really the export lines in which we have a potential comparative advantage? This question must be answered as any substantial export expansion must be linked up with increase in production and investment—a fact recognized in the First Plan but not acted upon till now. In what way can we best push them forth now, when the comparative advantage is still not with us, and the initial price of establishing them has to be paid?
>
> (*ibid.:* 109)

The building up of export connections and export markets, a long and time-consuming process, was a logical implication of the infant industry argument on which the case for an export promotion policy ultimately rested.

The other basic principle was the allocation of resources by the market mechanism. 'We have not yet decided what importance we should attach to the market mechanism both on the national and international fronts, and what substitutes we should have if we want to modify their working.' On both counts, while differential export incentives could be justified, their final removal without adverse consequence on the exports was the test of their legitimate use.

The most thorough-going and systematic critique of government policy along these lines was provided by Bhagwati in a series of papers on applied trade theory. For the general reader a more accessible version is in Bhagwati and Desai (1970). As regards the working of the industrial licensing system, they reached the conclusion that

> not only were the targets themselves fixed…without any systematic attention to costs and benefits but even the methods by which economic choices relating to their fulfilment were made were defective and could not be described as constituting rational intervention.
>
> (Bhagwati and Desai 1970:253)

They point out three main defects. Firstly, because of the absence of any explicit economic criteria for accepting or rejecting applications for an industrial licence, decisions were taken in an *ad hoc* manner leading to gross inefficiency in resource allocation. Secondly, the informational basis for reaching decisions on industrial licensing was extremely poor. Thirdly, the Licensing Committee decided between alternative applications on a first-come first-served basis, reflecting a vague concept of inter-firm equity. Given that there were ceilings on the number of licences to be issued, the use of a sequential procedure led to deliberate foreclosing of capacity by bigger, better-organised firms. Overall, Bhagwati and Desai concluded that more traditional means such as taxes and subsidies designed to keep industrial investments within the defined targets were a more efficient means of planning than 'the detailed licensing of…thousands of applications for licences' (p. 253). Much the same objections applied to the import control system. Reiterating the points made earlier by Lakdawala, Bhagwati and Desai noted that the quantitative restriction regime, which had largely supplanted the traditional tariff policy, worked on an incomplete and unsystematic informational basis, lacked any formal economic decision criteria and was operated by a series

of *ad hoc* administrative rules of thumb. Whatever allocational objectives it may have had were frustrated by the corruption fostered by the large premia on import licences. The same was true of equity objectives.

One of the stated objectives of Indian planning, and of the licensing and regulation system in particular, was to check both the concentration of ownership and the exercise of monopoly power. Criticisms of existing industrial policy on this score were made by the Monopolies Enquiry (Dasgupta) Commission of 1965, which pointed out, for example, that the sequential type of licensing favoured the bigger business houses.

> Much more, we think, can be done to make it easy for the comparatively smaller entrepreneur to get industrial and import licences without undue expenses and wasteful delay. Many of the leading industrialists, we understand, have found it necessary to maintain expensive establishments in the capital for facilitating the obtaining of licences. Those who cannot afford the expenses of running such establishments which include sometimes, it seems, large amounts required to employ high paid 'contactmen' and to give lavish parties are at a disadvantage.
>
> (Monopolies Enquiry (Dasgupta) Commission 1965)

As regards export policy, the chief target of attack by critics was the import entitlement scheme under which exporters received import licences, which commanded high premia in the market, *pro rata* to the value of exports made. During the 1960s this became the principal means of export promotion. Bhagwati and Desai (*op. cit.:* 406 ff.) pointed out that the scheme could create an incentive to over-invoice exports. Whenever the effective export subsidy provided by the scheme exceeded the black market premium charged for illegal transactions in foreign exchange, such an incentive would exist. During the early 1960s this was indeed the case. While, in the short-run, such over-invoicing was not necessarily harmful to the Indian economy it led some exporters, eager to profit by over-invoicing, to send out shoddy goods, with faked higher price declarations, to be sold abroad at what they could fetch, causing damage to the reputation abroad of the quality of Indian manufactured products at a time when building up goodwill was vitally important. In this, as in other respects, the policies pursued by the government appeared to be concerned with maximising exports in the very short-run rather than with a long-run and continuing export drive. Overall, observed Bhagwati and Desai, the import entitlement schemes were inferior to the more traditional instruments of trade policy such as *ad valorem* export subsidies. Critics of Indian trade and industrial

policies also helped to bring out the allocational inefficiency of 'physical' techniques of planning in general. Such techniques were adopted by a number of other developing countries as well but perhaps in no other country was their actual working studied with such care by economists. Indeed, Indian planning came to be regarded as a kind of benchmark against which the economic inefficiency of interventionist economic regimes elsewhere could be usefully studied. It was not only economic efficiency that suffered. Direct state control of production and imports led to the institutionalisation of corruption, with far reaching social and political consequences. Perhaps the most important of these was the erosion of public confidence in the integrity of the bureaucracy and even in the political system itself. As a businessman interviewed by Bhaghwati and Desai put it:

> For scarce commodities and imports, contacts and bribery have become essential. Things have come to a stage where we have frequently to bribe officials not merely to do what they should not do but in order to make them do what they are supposed to, and paid to, do!
>
> (Bhagwati and Desai *op. cit.:* 165)

In criticising the government's policies on trade and industry, economists in India, by and large, were not advocating that planning be replaced by *laissez-faire.* Towards the end of their book, Bhaghwati and Desai write:

> None of the improvements in the planning of trade, industrialization and related economic policies which we have advocated in this volume are incompatible with the basic objectives of a socialist society which stresses distributive justice, equality and the eradication of material poverty; indeed these socialist objectives *which we fully share,* have been frustrated in many instances by the existing policies and would be better served by the policy changes which we have suggested, (italics added)
>
> (Bhagwati and Desai *op. cit.*)

In the same spirit the present author, in a book published in 1974, noted that given the political administrative system in which Indian trade control policies were operating, 'delays and uncertainty together encourage corruption as a way of getting things done'; and went on to suggest that in many cases price policies could usefully replace trade control policies. 'The reason is not that the price mechanism, either nationally or internationally, optimises resource allocation but rather that intervention in domestic prices may be easier to administer and more certain in its effects than intervention in international trade' (Dasgupta 1974:116)

Expert committees appointed by government from time to time invariably agreed with the economists that quantitative restriction of trade and industry was inefficient and suggested better ways of achieving the objective desired. Such recommendations did lead to some degree of liberalisation but the dismantling of the system of direct state control has only just begun.

SAVINGS BEHAVIOUR

The Mahalanobis model had assumed that the supply of savings would not be a bottleneck. Whether this optimism was justified caused concern to Indian economists during the 1960s. It was from this perspective that Raj (1962) emphasised the importance of the marginal rate of savings which, he argued 'has a strategic role in Indian planning'.

> A high marginal rate, maintained over a long period, is a means of raising the average rate of saving in the economy and if realized without rise in prices, it can help, in the short period to reduce the multiplier effects of investment expenditure on aggregate demand.
>
> (Raj 1962:36)

On the basis of casual observation and informal reasoning, he also stated three broad hypotheses about savings behaviour by private households in India. Firstly, time lags of consumption behind income were important, especially among rural households. Secondly, the rate of savings among agricultural households was significantly lower as compared to non-agricultural households; and movement of internal terms of trade against agriculture would tend to raise the aggregate savings rate in the economy. Thirdly, within the rural sector the marginal propensity to consume among higher income groups was just as high as among lower income groups. The first two of these hypotheses have been confirmed by subsequent economic research, surveyed in Krishnamurty, Krishnaswamy and Sarma (1990), and this account draws on their survey.

During the last three and a half decades empirical analysis of savings behaviour has moved away from the Keynesian hypothesis that current consumption, and hence savings, is determined by current income, and towards the hypothesis that they depend on 'normal' income, interpreted either as life-cycle income (Modigliani and Ando 1957) or as permanent income (Friedman 1957). The concept of the choice of an optimum time stream of consumption by utility-maximising individuals goes back to Irving Fisher and Frank Ramsey. Modigliani and Friedman developed that concept in terms of testable models, and so established

the empirical importance of separating the consumption and income time profiles. The post-independence Indian literature on savings behaviour reflects the same trends: it is the normal income hypothesis that has provided such studies with a point of departure. The hypothesis itself has been tested in a variety of ways, the most common approach in the time series studies being to use average income, lagged consumption/saving or the rate of growth of income, in addition to current income as explanatory variables for the current level of consumption/ savings. Cross section studies have used indices such as education, land value or capital assets as representing 'wealth and hence permanent income. The cross section studies (see Ramanathan 1968; Bhalla 1980; and National Council of Applied Economic Research (NCAER) 1985, 1986) tend to support the permanent income hypothesis in its 'weak' version, the marginal propensity to save out of transitory income being greater than zero but less than one. Results of time series studies are usually less clear cut but Krishnamurty, Krishnaswamy and Sarma (1986) found the rate of growth of income to be a statistically significant influence on the household savings rate, thus supporting the 'normal' income hypothesis.

Attention was also paid to inter-sectoral differences in the rate of saving. The differences studied were usually those between agricultural and non-agricultural households and sometimes also between rural and urban households. The absence of reliable, independent estimates of consumption or saving in the two sectors ruled out any direct test of whether the difference was statistically significant. Instead, Krishnamurty (1964) used the ratio of non-agricultural to agricultural income as an extra variable in estimating the aggregate consumption function (also see Majumdar *et al.* 1980). If agricultural and non-agricultural savings rates were indeed different the coefficient of this variable in the regression equation should be significant. One problem with the approach is that it ignores the effect of changes in inter-sectoral terms of trade, an issue of some importance in the Indian context. Some have tried to correct for this by specifying the share of income originating in agriculture in terms of current (nominal) income. The hypothesis of an inter-sectoral difference in the savings rate continues to be consistent with the observations. Broadly, the following conclusions appear to have gained wide acceptance. Firstly, the savings rate in the agricultural sector is lower than in the non-agricultural sector (as Raj had suggested). Second, the extent to which it is lower has been diminishing over time since the early 1970s, following the spread of the Green Revolution. Thirdly, a movement in the inter-sectoral terms of trade in favour of agriculture tends to lower the aggregate savings rate in the Indian economy.

INDUSTRIAL DECELERATION

The deceleration in the growth of industrial output which began in the mid-1960s and lasted certainly till the mid-1970s, and by some accounts continued into the early 1980s, had considerable social and political consequences for India. It was also much discussed by economists. At first, they were concerned mainly with statistics. Perhaps the apparent decline in industrial growth rates was simply a statistical fluke produced by an inappropriate choice of levels of aggregation or of end-points to be compared? Once it became established that this was not the case the focus switched to reasons for the decline. This came to be known as the 'deceleration debate', which is still far from settled.

The account of the deceleration debate given here is based largely on Ahluwalia (1982) and Krishna (1990). Earlier studies, based on data on industrial production indices, had supposed industrial deceleration after the mid-1960s to have occurred across the board. Ahluwalia showed that because of errors in the data, this finding was faulty. Using the more reliable National Accounts data, she showed that the deceleration was industry-specific and that significant deceleration had occurred only in the basic and capital goods industries, a point to which we shall return.

Industrial deceleration has been attributed by some to a slowing down in agricultural growth (Chakravarty 1974; Raj 1976). Here the general question of the strength of the linkage between agriculture and industry in the Indian economy should be distinguished from the more limited one of how far industrial deceleration after the mid-1960s could be attributed to slower agricultural growth. There is ample evidence that the agriculture-industry linkage in India is indeed strong. It does not follow that deceleration in industry was caused by deceleration in agriculture. There is now general agreement that the growth of agriculture and particularly food grains, did *not* slow down after the mid-1960s. 'The effect of agriculture on industry that operates through the demand factor can therefore not be held responsible for bringing about the deceleration in industrial growth' (Ahluwalia 1982:149).

Furthermore, if there was a decelerating effect from agriculture on the demand side, it would be primarily on the growth of value added of consumer goods that the effect could be expected to operate. However, statistical analysis shows that the growth of consumer goods output, in terms of value added, did not decelerate significantly.

A slow down in agricultural growth could also exert a decelerating effect on industry through linkages on the supply side, for example *via* a wage goods constraint on industrial growth. Ahluwalia examines this possibility also and finds no evidence for it; the growth in the output of

food grains had not decelerated, and the relative price of food grains in terms of manufactures did not show a rising trend. The pressure of wage goods through squeezing the profitability of the industrial sector could therefore not be held responsible. There was only one aspect of agricultural growth which could have constrained growth in industry: the deceleration that had occurred in the growth in output of commercial crops.

Again, this could not have been a direct cause of industrial deceleration, for this particular linkage affects only the agro-based industries, which in fact suffered no significant deceleration in value added; but it could have prevented potential growth. Two related points appear relevant here. Firstly, Ahluwalia's findings are consistent with a comprehensive study by Sastry (1984) of the cotton mill industry, the most important agro-based industry in India. Sastry had also found that while demand factors probably contributed to the downward trend in capacity utilisation, their effect was much less than that of the difficulties related to the supply of raw materials.

Secondly, there is a distinction between explaining deceleration and explaining slow growth, which is not always maintained in the literature under review. Ahluwalia writes:

> While not decelerating, the growth of agriculture was relatively slow over the whole period, both before and after the mid-sixties. Since foreign trade possibilities were ruled out, slow growth of agriculture could have constrained the growth of the industrial sector.
>
> (Ahluwalia 1982:150)

Another explanation for industrial deceleration which received much attention in the literature was increasing inequality in the distribution of income. This explanation comes in several different versions, though these are not mutually exclusive. One version argued that a high and increasing degree of income inequality leads to a pattern of demand that retards growth. It was this, argued Mitra (1977) that was responsible for a levelling off in the demand for mass consumption goods simultaneously with the development of luxury consumer goods industries catering to a rich minority. The argument was further developed by Nayyar (1978) who stated that manufactured goods sold to the relatively few rich could use up the capacity in the intermediate and capital goods sector only to a very limited extent. Only a broad based demand for mass consumption goods could lead to a full utilisation of capacity and generate sustainable increases in output, but that was excluded by an increasingly inegalitarian income distribution.

The second version of the income distribution explanation of industrial deceleration has to do with the level of savings. Chakravarty (1974, 1979) argued that increasing income inequality, by leading to 'excessive' saving, and hence deficiency in demand, had contributed to industrial deceleration. He suggested that an important mechanism for producing higher inequality was a trend in inter-sectoral terms of trade in favour of agriculture, due in part to government policy itself. Thus, it was argued that the principal effect of increases in the procurement price of food grains by the government, together with investment in building up inventories of food grains, was to benefit rich farmers, and that the resulting increase in agricultural incomes took the form of increased saving. Investment in the rural sector lagged behind saving and with insufficient offsets for elsewhere, a general demand deficiency was the result.

An important contribution by Ahluwalia was to point out various weaknesses of income distribution explanations of industrial deceleration. National Sample Survey data on household consumption expenditure did not show a rising trend in income inequality as measured by the Gini coefficient. The relative price of food grains in terms of manufactured goods showed an increasing trend only up to 1967–8 and after that, during the period of industrial deceleration itself, a declining trend. Further, if the rate of savings in the agricultural sector in India is lower than in the non-agricultural, as results of recent research discussed in the previous section indicate, a shift in the terms of trade in favour of agriculture would have helped reduce the overall savings rate, rather than increase it, except to the extent that this was counteracted by a change in income distribution within the agricultural sector in favour of richer farmers. Finally, if income distribution explanations of deceleration were correct, we should expect a relatively faster increase during this period in the output of sectors producing goods mainly consumed by the rich. This is not borne out by the empirical evidence, which suggests that the growth rate of the output of consumer durables remained much the same throughout.

Neither agriculture nor income distribution, then, could explain industrial deceleration since the mid-1960s. Among the demand factors which could have contributed to it is the slowing down in the growth rate of public investment. Because of complementarity between public and private investment, runs the argument, the rate of growth of private investment declined as well. A decline in the growth rate of investment had adverse effects in particular on the demand for capital and basic goods. Their growth rates declined. Because of the investment strategy adopted by the Second Five Year Plan the capital and basic goods sectors had now come to account for nearly half of the value added in industry as a whole. A deceleration of industrial output was thus a natural consequence.

Apart from its effect on growth through the demand for capital goods, slower growth of public investment also generated certain constraints on the supply side, in respect of electricity, railways, and infrastructure in general.

Ahluwalia concludes:

> To sum up, the major factors that appear to be responsible for the deceleration in industrial growth after the mid-sixties are the faltering of the demand stimulus arising from the deceleration in public investment, the effect of the deceleration in public investment on growth of the infrastructure sector, failure to pursue rational foreign trade policies, and the cumulative impact of the growing inefficiencies over time.
>
> (Ahluwalia 1982:156)

Ahluwalia's contribution to the deceleration debate remains subject to a serious methodological limitation. As Krishna (1990:82) notes, 'The fact that a given possible explanatory factor, say infrastructure investment, displayed inter-temporal variations, does not necessarily imply that this factor explains the variations in industrial output. Such issues should be investigated with the help of suitable econometric exercises'. However, because numerous factors operate over time, only some of which are causal and others merely 'spurious', it is important, before attempting such econometric analyses of time-series data, to test carefully whether a long-run 'equilibrium' relationship between the variables did in fact exist (Granger 1986).

The assumption of complementarity between public and private investment has also been questioned. Sundararajan and Thakur (1980) have argued that public investment in India crowded out private investment and hence reduced the growth rate of national income. Pradhan, Ratha and Sarma (1990) agree with the first part of this statement (that crowding out occurs) but not with the second (that the growth rate is reduced thereby). They conclude instead that public investment, by crowding out private investment, increases the growth rate, but the point is still far from settled.

MEASUREMENT OF POVERTY

Indian economic thought in the nineteenth century had looked on economic growth as the only long-term remedy for poverty and famine. In doing so, it was following the mainstream economic tradition from Adam Smith to Alfred Marshall. Poverty itself was seen essentially as a lack of

resources leading to absolute deprivation such as insufficient nutrition and poor housing. With economic growth, absolute deprivation in developed countries gradually declined. Discussion of poverty, never a major theme in neoclassical economics, came to be dominated by sociologists who took a purely relative view of basic needs, and hence of poverty. On this view, individuals are said to be poor if their income and assets are so much below the average as to exclude them from the ordinary living patterns, customs and activities prevailing in the society concerned. Poverty in developed societies is now usually defined in this way, blurring the distinction between deprivation and inequality. Indian economic thought, and development economics in general, have continued to preserve that distinction, which is surely more conducive to clear thinking than using a 'relative' definition of poverty according to which, 'there may well be greater poverty in Britain than in Bangladesh and more poverty in Britain in the 1980s than in the 1880s…' (Dasgupta 1988:72).

Two different methods have been developed to estimate the extent of deprivation. One, the 'direct' method, specifies as deprived those whose food consumption fails to meet their nutritional requirements. The other, known as the 'income' or 'expenditure' method, regards as deprived those with insufficient income to meet their basic needs, of which nutritional needs are the most important component.

The Indian economic literature on poverty has concentrated almost entirely on the income method and in particular on how to construct the 'cut-off monetary income below which people are to be classified as poor, the so-called 'poverty-line'. This itself has been done in a number of different ways, depending on the specification of the minimum nutritional requirements which people must be able to buy in order to escape being classified as poor. The pioneering work in this area by Dandekar and Rath (1971) specified the nutritional requirement as 2250 calories per capita per day, thus in effect defining the poor as those who could not afford to buy their energy requirements. Data on household consumption expenditure was used to identify the expenditure class with a level of calorie intake nearest to the calorie norm that had been specified. The mean consumption expenditure of this group of households was taken to be the relevant poverty-line measured, at prevailing prices.

During the early 1970s there was considerable discussion, much of it in the *Economic and Political Weekly,* of conceptual and statistical problems involved in measuring a poverty-line in this way. It was pointed out, for example, that since calorie requirements vary with age and sex and households differ in their composition by age and sex, using a uniform average calorie requirement for constructing a poverty-

line could be misleading, and that differences in household composition should be allowed for by using an adult-equivalence scale as a standardising device, an approach that has been applied to Indian data by Paul (1989), among others.

Secondly, it was suggested that while the general idea behind Dandekar and Rath's method for constructing a poverty-line, namely that such a line should reflect the ability to meet basic nutritional needs, was sound, they had failed to take requirements of nutrients such as protein, calcium or vitamins into account, and man does not live by calories alone. This led to attempts to construct the poverty-line using a more traditional approach, in terms of the cost of a balanced diet, defined as one satisfying minimum requirements of other nutrients as well as calories. To this was added an allowance for a minimum level of non-food items (Panikar, 1972; Bardhan, 1973; Rudra, 1974; also other papers in Srinivasan and Bardhan, 1974).

The extended approach to the definition of a poverty-line was found to have its own problems. It was pointed out that the cost of a balanced diet may not be uniquely determined. There could be several different diets which satisfy the nutritional requirements laid down but which differ, often substantially, in their composition, and hence in cost. This led to a poverty-line being interpreted as a variant of the well-known 'least cost' balanced diet problem of linear programming, subject perhaps to some additional palatability and cultural constraints (Panikar 1972; Rajaraman 1974).

Allowing for non-food items in constructing a poverty-line involves problems, too. Since for such items we cannot appeal to nutritional norms, the allowance is usually (as in Bardhan *op. cit.*) made on the basis of actual consumption data for a reference population, e.g. the lowest quintile of the income distribution. As Paul has pointed out, this introduces a logical circularity into the definition of a poverty-line.

> Since the consumption pattern is likely to vary across income classes, ideally the estimation of the non-food component has to be done on the basis of expenditure pattern of the marginally poor. But how can we know who they are before the poverty-line is drawn?
>
> (Paul 1989:187)

Whether economic growth reduces poverty, especially rural poverty, as long supposed, also attracted attention from scholars. This was tested using linear regressions on time of the degree of poverty, usually measured by the head-count ratio but sometimes by the theoretically more appealing index devised by Sen (1976). The results turned out to be quite sensitive to

the choice of period, which could be due to wide variation in rural poverty between good and bad crop years and structural reasons common to many less developed countries which allow wide fluctuations in the price of staple foods, and hence in the cost of living. Also, apart from the usual difficulties of drawing conclusions from a small number of time-series observations, there is the added problem that growth rate itself was low. Attempts were also made to examine the relationship between rural poverty and agricultural output per head in India and on the whole the hypothesis of an inverse relationship was sustained (see Ahluwalia 1978). This does not imply that the 'trickle-down' benefits of agricultural growth for the rural poor will suffice to eliminate 'hard core' poverty, and so bring down the level of poverty substantially in the foreseeable future.

A study of chronic poverty by Gaiha (1989) based on panel data on rural households concludes, however, that neither are the chronically poor in rural India necessarily the poorest, nor are the poorest necessarily chronically poor. This, together with the finding that the incidence of chronic poverty was substantially lower in the technologically advanced regions (p. 312), should help dispel the 'growth-pessimism' that has become chronic among Indian economists.

AGRICULTURE

In the literature of the 1960s the question of whether peasants, and Indian peasants in particular, were economically rational, often came up. Sometimes the issue of rationality was discussed somewhat simplistically in terms of measured price elasticities of supply (see Bhagwati and Chakravarty 1969:30 ff) but others took a more comprehensive view, looking *inter alia* at efficiency in input use, allocation of land between different crops, the influence of weather uncertainty on the choice of crops and so on (see Krishna 1963; Narain 1965; Dasgupta 1970). These studies decisively supported the hypothesis of peasant rationality in the sense of optimising behaviour in the presence of constraints, as against the alternative hypothesis that their behaviour was simply the expression of social obligation or custom. Following the Green Revolution and the widespread adoption by farmers of new technology and high yielding crop varieties, interest in the question of peasant nationality appears to have declined.

Another issue which aroused much interest was the finding, based on data provided by the Farm Management Studies of the mid-1950s, that there was an inverse relationship between farm size and productivity per acre. Several explanations were offered. Sen's (1966) explanation, which had considerable influence on the subsequent literature, turned

on the difference in the opportunity cost of labour as perceived by small peasants as compared to capitalist farmers. The former regard the opportunity cost of family labour as lying below the market wage for hired labour and hence carry on cultivation to the point where the value of the marginal product of labour equals this subjective estimate. Capitalist farmers, on the other hand, use labour to the (profit maximising) point where the value of the marginal product of labour just equals the market wage. An alternative explanation of the inverse relationship was offered by Khusro (1964): the fertility of the soil was lower on larger farms. If the cultivated area was standardised on the basis of land-revenue ratings (which were related to fertility) the decline in productivity, with size, was much reduced. The discussion of the 'inverse relationship' was usually in terms of a two factor scheme (land and labour). With the increasing use of capital inputs, the question lost much of its interest.

During the last two decades there has been considerable discussion on the economic rationale of different land tenurial arrangements. The share cropping form of tenancy which had long been prevalent in India (several variants of it were distinguished in the *Arthasastra*) was given particular attention. Rao (1971) argued on the basis of cross-sectional evidence that share cropping prevails in those areas and for those crops where, because of the lack of substitution possibilities, the elements of uncertainty and entrepreneurship are relatively less important: if these elements are important, fixed contractual arrangements are more likely to occur. A number of other considerations have been emphasised in subsequent literature. Bardhan (1984) analysed share cropping as a compromise between the incentives problem under wage contract and the risk bearing problem under fixed-rent contracts. He notes (1984:161) that the costs of labour supervision and monitoring induce landowners to look for land-lease contracts rather than hiring labour (monitoring costs being particularly high when weather uncertainty makes it difficult to infer input from output). On the other hand, the fixed-rent contract could impose too heavy a burden on the poor, often very risk averse, tenant. Further, he brought out the relevance of imperfections in the credit market. The fixed-rent contract, for example, could well involve advance payment of rent. A tenant lacking capital assets and without ready access to credit markets may well prefer a share tenancy in which the rental share is collected at the time of harvest (*ibid.:* 97).

Considerations relating to credit have also been invoked to show that the prevalence of share cropping can lead to technological backwardness in agriculture. In Bhaduri's (1973) well-known model,

which is concerned with the implications of usury in a semi-feudal setting for the adoption of yield raising innovations, the landlord provides consumption loans to his tenants at an exogenously given rate of interest. The tenant, it is assumed, leases land from the landlord on a crop-sharing basis, the share itself being exogenously given; borrows regularly for consumption at the beginning of each crop period; and repays principal with interest at the time of harvest. The landlord may then have no incentive to adopt yield increasing innovations because, assuming that the tenant tends to borrow less as his income goes up, due to the increase in yield, the landlord may lose out more on his interest income than he gains through the increase in crop yields. The inter-linking of land-lease and credit contracts here acts as a constraining factor on the adoption of technical innovation in agriculture. Bhaduri's hypothesis was widely debated. Several writers (see Griffin 1974; Ghose and Saith 1976) questioned the assumptions of the model, for example the assumption that rental shares or interest rates are exogenously fixed. In the kind of situation to which the model is meant to apply, the landlord may be expected to wield considerable social and political clout. Why then, it was asked, should he not use that power to manipulate terms and conditions of the tenancy and credit contracts, including the rental share and the rate of interest, so as to appropriate for himself the gains made possible by technical progress? Allowing for such options by the landlord leads to a conclusion directly opposite to Bhaduri's: the stronger the degree of domination over the tenant enjoyed by the landlord the more readily he would adopt yield increasing technical innovation. Another crucial assumption of the Bhaduri model is that if the tenant's income increases because of yield increasing innovation he would borrow less. This has been questioned and it has been shown that under certain conditions borrowing cannot be 'an inferior good' for the tenant.

It is difficult to test such models directly from empirical data. Indirect evidence, in the form of a large body of village level survey data in North and East India, examined by Bardhan, do not appear to bear out the hypothesis that landlords discourage the adoption of agricultural innovations. Even though the landlord is normally an important source of credit to his tenants, there are very few cases in which a tenant reported money lending to be his landlord's principal occupation.

> The landlord quite often gives production loans to the tenant, shares in costs of seeds, fertilizers, etc., participates in decision making about the use of these inputs, and in general takes a lot of interest in productive

> investment on the tenant farm, quite contrary to the implications of the Bhaduri hypothesis.
>
> (Bardhan 1984:165)

Nevertheless, the model does embody an important theoretical insight which continues to provide an impetus to research in this area (see Basu and Bell 1991).

Indian economists have also contributed to theories of wage and unemployment in rural labour markets of poor agrarian economies. Part of the legacy of the Lewis model was the idea of a horizontal supply curve of labour in the agricultural sector. The hypothesis of a more or less fixed real wage-rate in agriculture was justified by appealing to a subsistence theory, or in sociological literature, by custom, paternalism or social sanctions. Bardhan's (1984) work has helped to establish the existence of considerable variation in rural wages in India over time and between regions. While these could perhaps be explained by a standard neoclassical ('marginal productivity') view of the rural labour market, the persistence of what appears to be involuntary unemployment needs a different explanation. One is provided by Bardhan (1978, 1979, 1984), turning essentially on seasonality of agricultural production; the element of consumption credit in the wages advanced; the high premium the employer places on quick and ready availability of labour during the peak season; and monopsony power of the employer. Models incorporating these features are developed so as to explain both the existence of involuntary unemployment and the variations of wages in response to the supply and demand of labour. Further improvement and extension of this type of model is continuing, as recent issues of journals such as the *Journal of Development Economics,* testify.

CONCLUSIONS

At the conclusion of her history of Japanese economic thought, Morris-Suzuki (1989:195) writes: 'Within the present ferment in Japanese economic thought the outlines of future directions are beginning to become clear'. The outlines of future directions of Indian economic thought do not yet appear that clear. Inevitably, Indian economic thought will continue to be influenced predominantly by prevailing trends and fashions of professional economics in the world at large. Nevertheless, ghosts from the past are likely to reappear from time to time; and on some topics at least they may have something useful to tell us.

One such topic is the role of the state in economic affairs. Again, conflicting views on this are not unique to India. Morris-Suzuki *(ibid.:*

195) describes the 'contrast between faith in the free market and belief in the need for state planning' as one of the 'polarities' that have haunted the history of Japanese economic thought; and the same perhaps is true of some other countries too. In India, however, the contrast is particularly stark. There is a powerful and ancient tradition in Indian economic thought that looks to the state for control of economic activity. In some versions of the doctrine the state is merely regarded as being 'ultimately' responsible for the economy. As such it has the authority, and the duty, to intervene 'if necessary', 'in the public interest' or 'in emergency'. In other versions, such as the *Arthasastra,* even normal economic activity is regarded as either being directly a state activity or, if carried out by private individuals, being subject to strict and detailed state regulation and control. As against this statist tradition, however, there was also a school of thought which expressed a distinct preference for private economic activity, especially commerce, and wished to restrict the economic role of the state. This view goes back to ancient times and was articulated particularly well in the Buddhist literature. Both schools have left their mark on recent Indian economic thought. The problem of reaching a just balance between them will continue to confront Indian economists concerned with issues of economic policy.

Secondly, the future direction of Indian economics will depend on how far economists continue to stick to the predominant neoclassical paradigm. A growing number of the world's economists are beginning to suspect that it does not provide a proper foundation for the analysis of economic behaviour. Critics point out, for example, that its central assumption, that agents optimise their purely self-interested preferences, implies too narrow a view of human motivation. Some have tried to broaden that view by abandoning methodological individualism and taking the preferences of larger aggregates such as societies, cultures, or institutions, as basic, rather than those of individuals, an approach implicit in much of the political economy literature. Such an approach logically implies socio-cultural determinism which I believe involves conceptual difficulties even more troublesome than those associated with the neoclassical paradigm itself (Dasgupta 1988). An alternative more in line with the tradition of Indian economic thought would be to retain the individualist focus but to let considerations other than self-interest alone influence the individual's preferences. This provides a natural way of linking up ethical considerations, such as altruism, with economic behaviour—a link which figures prominently in Indian economic thought from Buddha onwards.

Another important aspect of the neoclassical paradigm that has recently attracted criticism is its narrow concept of rationality. This is usually described as 'instrumental' rationality—rationality in the choice of means to achieve a given end. Philosophers and philosophically minded economists have recently been trying to extend the concept of rationality farther, to include reasoning about ends to be achieved. An individual's preference-ordering over a given set of alternatives could vary, depending on the end sought. One could therefore distinguish between different sets of preference-ordering of the alternatives for the same individual. One could even try to set up a ranking between the various preference-orderings. Such an approach, which some have described as based on 'expressive rationality' emphasises that individuals may seek not only to satisfy their desires but also to reflect on these desires in a rational manner. As we have seen, the tradition of Indian economic thought offers a variety of principles that could help in developing a broader concept of rationality in individual choice.

Glossary

Ahimsa

Non-violence; refraining from injury to living creatures by thought, word or deed.

Ahl al Kitab

(Arabic) Literally: People of the book. A term which in Islamic literature refers normally to Jews or Christians. Unlike other non-Muslims, people of the book may not, in principle, be forcibly converted to Islam but are entitled to religious protection by a Muslim state, subject to payment of *jizya*.

Bodhisattva

(Sanskrit) Lit.: One possessed of *Bodhi* (enlightenment) In the *Jatakas,* a previous incarnation of Buddha. In *Mahayana,* one who has chosen to postpone Buddhahood to work for the welfare of other living beings.

Calipha

(Arabic, *Khalifah*) 'Successor', 'viceroy' or 'representative', in this case of God on earth; the temporal ruler and spiritual head of the first Islamic state.

Charkha

A type of spinning wheel.

Christian Fathers

A group of ecclesiastical writers, mostly bishops and scholars of the church in the early centuries, whose authority carried special weight in matters of Christian doctrine.

Dharma

(Sanskrit) Lit.: That which sustains, from the root *dhr,* to sustain, to hold up.

In Hinduism: the Sacred Law; a religious duty; customary rules of right conduct for members of a group; duty appropriate to one's *varna;* moral law.

In Buddhism: (usually *'Dhamma'* (Pali)) the Doctrine (of Buddha); the constituents of phenomena.

In Asokan inscriptions: righteousness.

In Gandhi: the moral law.

Gahapati

Housholder.

Hadith

(Arabic) Lit.: Report, account. Record of Islamic usage and custom specially those relating to the deeds and sayings of the Prophet. One of the basic sources of law in Islamic jurisprudence.

Hanafi

One of the four Schools of Law *(Madhahib)* among Sunni Muslims, the others being *Hanbali, Maliki* and *Shafi.* It was founded by Abu Hanifah in AD 767 and is the dominant school in most countries that were formerly part of the Turkish Empire, and in India.

Hiyal

(Arabic) Lit.: Ruses. Legal devices designed to get around restrictions imposed by the *Sharia* without technically violating the *Sharia.*

Jizya

A poll tax to be paid by non-Muslims (according to the Quaran by the Ahl al Kitab) in an Islamic state.

Khaddar, Khadi

Cloth made from hand-spun yarn.

Mahabharata

Ancient Sanskrit epic.

Nirvana (Sanskrit), *Nibbana* (Pali)

(Lit. Blowing out) In Buddhism, emancipation, bliss; ultimate goal of the *Dhamma.*

Qadi (also spelt *Cadi* or *Cazi)* Islamic judge; a jurist and scholar, belonging to the Ulama, appointed by the ruler and entrusted with the execution of justice.

Ramayana

Ancient Sanskrit epic which tells the story of Rama the virtuous king.

Sangha
The Buddhist order of monks.

Savkar, Sowcar
Village money lender.

Shariya
(Arabic). From the root *Sharaa* to enact, introduce or prescribe. The canonical law of Islam derived from the Koran and the Sunna and elaborated according to the principles developed by the various Schools of Law.

Sura
A chapter of the Quaran. There are 114 in all.

Swadeshi
Indigenous product made in one's own country.

Swaraj
Self-rule.

Ulama
(Arabic) Lit.: Those possessed of *ilm* (learning). Scholars accepted as being authorities in Islamic law and theology; body of learned persons with competence to decide on legal and religious issues in Islam.

Ushri
(Arabic) From *ushr,* a tenth part. Tithe on property owned by Muslims.

Varnas
The four classes of Hindu society generally though somewhat inaccurately described as castes. In descending order of rank they are: *Brahmanas* (the priestly class), *Ksatriyas* (the warrior class), *Vaisyas* (cultivators and merchants) and *Sudras* (serfs).

Vedas
Ancient Hindu religious texts in Sanskrit comprising the four collections *(Samhitas): Rg, Sama, Yaju* and *Atharva.*

Yagna
Ritual sacrifice which in early Hindu society was believed to be a means of bringing about desired results, cf. Dasgupta (1975 1:22): 'The sacrifice is not offered to a god with a view to propitiate him or to obtain from him welfare on earth or bliss in heaven; these rewards are directly produced by the sacrifice itself through the correct

performance of complicated and interconnected ceremonies which constitute the sacrifice.'

Zakat

Tax prescribed by the Quaran and payable by all adult Muslims at a percentage rate on wealth, the rate varying according to the type of wealth possessed. The proceeds of *Zakat* are earmarked for the poor and the needy, for travellers and for the purpose of *jihad* (holy war).

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